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ABSTRACT

The report analyzes ways in which the states are currently using P.L. 94-142 (The Education for All Handicapped Children Act) set-aside funds and considers possible effects of a shift in the set-aside proportion. States are allowed to set aside up to 25% of their federal grants for their own allocation. The report focuses on data from three sources: a national telephone survey of state offices of special education in 48 states; interviews with federal and state officials, local educators, and special interest groups; and site visits to three states. Findings revealed the types of activities currently being funded, average percentage set aside, functions of the set aside, and effects of shifting the proportion. It was concluded that the states' use of the set-aside is consistent with federal legislation and meets their needs. Suggestions for giving the states more flexibility in decisionmaking were noted, and the necessity for gathering national data on the set-aside program was emphasized. Responses of officials of the Department of Education to this report are summarized. (CL)

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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Chairman, Subcommittee On The Handicapped, Committee On Labor And Human Resources United States Senate

Use Of The Public Law 94-142 Set-Aside Shows Both The Flexibility Intended By The Law And The Need For Improved Reporting

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Under the Education for All Handicapped Children Act (Public Law 94-142), each state may set aside for the payment of administrative and direct and support services 25 percent of all the funds granted to it for the education of handicapped students. In fiscal year 1984, the $250 million set-aside represented the federal share in the support of responsibilities assigned by the act to the states for this $1 billion program. Asked to determine the probable effect of mandating a change in the set-aside, GAO found that the average state flows through to local education agencies more funds than the law requires and that the states use the set-aside money with the flexibility that the law intends. However, the state directors of special education and GAO's analyses indicate that a mandated reduction could lead to changes in the types of activities that are funded.

Basic nationwide data on the set-aside are lacking. Collecting such minimal information as the percentages that the states retain, and including it in the Department of Education's annual report to the Congress, would help provide at little cost or burden better data than are available about how the states perform their responsibilities in the overall program for handicapped children.

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PROGRAM EVALUATION
AND
METHODOLOGY DIVISION

B-216479

The Honorable Lowell Weicker, Jr.
Chairman, Subcommittee
on the Handicapped
Committee on Labor and
Human Resources
United States Senate

Dear Mr. Chairman:

This report responds to your request for a study of the Public Law 94-142 state set-aside. It describes how the states are currently using these funds and analyzes the likely effect of a shift in the set-aside proportion. Based on this review, the report presents a matter for consideration by the Subcommittee, namely, the need for regularly collected nationwide data on the set-aside.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until three days from the date of the report. At that time, we will send copies to interested parties and make copies available to others on request.

Sincerely,

Eleanor Chelimsky
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE SUBCOMMITTEE
ON THE HANDICAPPED
COMMITTEE ON LABOR AND
HUMAN RESOURCES
UNITED STATES SENATE

USE OF THE PUBLIC LAW 94-142 SET-ASIDE SHOWS BOTH THE FLEXIBILITY INTENDED BY THE LAW AND THE NEED FOR IMPROVED REPORTING

D I G E S T

The states are allowed to set aside up to 25 percent of their grants under the Education for All Handicapped Children Act of 1975, Public Law 94-142, for their own allocation under broad federal guidelines. Each state must flow through at least 75 percent of its grant to local education agencies. In fiscal year 1984, Public Law 94-142 activities were funded with slightly more than $1 billion, of which 25 percent, or more than $250 million, was set aside for allocation by state education agencies. Comparatively little attention has been paid to the use of the set-aside. Research has been directed mostly toward understanding the flow-through funds.

The chairman of the Subcommittee on the Handicapped of the Senate Committee on Labor and Human Resources asked GAO to provide current evaluative information that would allow generalizations about the use and effects of the Public Law 94-142 state set-aside. More specifically, the chairman asked GAO to identify current uses of the set-aside (including the functions that the set-aside is fulfilling, and the types of activities that are funded), and to assess the probable effect of shifting the relative proportion of funds between state and local education agencies.

OBJECTIVES, SCOPE, AND METHODOLOGY

To answer the chairman's request, GAO collected data from three sources: (1) a national telephone survey of state offices of special education in 48 states (Hawaii, New Mexico, and the District of Columbia were excluded), (2) interviews with federal and state officials, local educators, and special interest groups, and (3) visits to sites in 3 states. GAO's study design was intended to produce information that would allow

nationwide generalizations about the Public Law 94-142 set-aside. (pp. 7-12)

PROBLEMS IN REPORTING FINANCIAL DATA

Collecting financial information necessary to conduct the review was difficult for two reasons. First, while there are federal reporting requirements for planned uses of the set-aside, no information is required for actual expenditures in this $250 million program. While some states do voluntarily provide partial expenditure information in their annual performance reports to the Department of Education, GAO found the information from these reports of little use given the absence of a standard set of categories or descriptors for set-aside activities. Moreover, the absence of standard reporting categories also means that the states keep records in different ways that are not always consistent with the categories for which GAO requested information.

Second, the states are allowed to reserve a portion of a current year's set-aside funds and carry them over into the following year. The respondents to GAO's survey could not, for the most part, distinguish between various allotments of funds. Therefore, GAO studied the use of set-aside money not in the federal but in the state fiscal year 1984 (July 1, 1983, to June 30, 1984, for all but 3 states). (pp. 12-13)

Because of these two problems, the financial information collected by GAO should be interpreted as estimates, not as precise figures.

DO THE STATES RETAIN THE 25-PERCENT SET-ASIDE?

A state may set aside 25 percent of its Public Law 94-142 grant. Up to 5 percent of its grant (or $300,000, whichever is greater) may be used for the administrative cost of carrying out the law. The remainder of the set-aside (that is, approximately 20 percent of the total grant) may be used for direct and support services. GAO found that the majority of the states do not retain the full 25 percent. No state exceeds the 25-percent limit.

On the average, the states retain about 20 percent of their grants. The voluntary reduction means that the states let $53 million more flow through to local education agencies in 1984 than they would have if they had set aside the full 25 percent. (p. 14)

Most of the states retained the 5-percent maximum for administration. Only six states retained less than 5 percent. Three percent was the smallest amount retained. (p. 15)

However, some states whose numbers of handicapped children are lower than in other states may retain $300,000 for administration, an amount that may be more than 5 percent of an award. GAO identified 11 "small" states (as defined by child count), all of which retained more than the 5-percent set-aside that is otherwise allowed for administration. (p. 15)

Most of the states retained less than 20 percent of their grants for direct and support services. Of the 48 states that GAO surveyed, 35 retained less. On the average, the states retained 14 percent for direct and support services. (pp. 15-16)

WHAT FUNCTIONS DOES THE SET-ASIDE SERVE?

State directors of special education identified a variety of broad purposes being served by the set-aside. Most frequently, they mentioned the guarantee of a free and appropriate public education for handicapped students (54 percent) and monitoring compliance with the law (44 percent). Crisis intervention, filling gaps in special education, and insuring due process were also mentioned. (pp. 27-28)

Public Law 94-142 and its regulations set forth seven broad functions for the set-aside: (1) administration of the annual program plan and planning at the state level; (2) approval, supervision, monitoring, and evaluation of local programs and projects; (3) assistance to local agencies in planning programs and projects; (4) technical assistance to local agencies; (5) leadership and consultative services; (6) support

services; and (7) direct services to handicapped children by the state, by contract, or by other arrangements. GAO found that reported uses of the set-aside are consistent with these functions. (pp. 25-27)

WHAT TYPES OF ACTIVITIES ARE BEING FUNDED?

GAO found more similarities in the states' use of the administrative set-aside than in their use of the set-aside for direct and support services. Forty-seven states were able to describe how they used the administrative funds. All reported using this money to fund administrators, supervisors, and other personnel in department operations. All also funded support personnel (secretaries, data processors, and so on). Thirty-three of these 47 states funded program operations personnel (consultants, psychologists, and other specialists). Of the $47,776,000 set-aside reportedly spent for administration by these 47 states in 1984, 45 percent was used to fund personnel in these three categories. (pp. 17-20)

The most frequent use of the direct and support services portion of the set-aside was the funding of activities related to comprehensive systems of personnel development, with which the states assess training needs and provide training or technical assistance at the local level. Forty-one states described their direct and support services, and 32 of these reported using set-aside dollars for this purpose. Thirteen percent of the average state's direct and support service set-aside dollars and 12 percent of the $122,659,000 expenditure on direct and support services reported by the 41 states for 1984 went to the comprehensive systems of personnel development. (pp. 21-23)

But the states put the direct and support services money to a considerable number of other uses as well. About half the states used it for model programs, 20 states used it to develop materials, 19 states used it to support vocational programs and advisory panels, 18 states funded "related services" necessary in the education of the handicapped (including corrective and developmental services, among

other things), 17 funded research and evaluation, and 15 funded residential placement programs, assessment centers, and interagency coordination. (pp. 21-22)

The overall picture shows that states are using the flexibility that the legislation and regulations allow. The result is great variation in the activities that are funded, particularly with the direct and support services money.

WHAT WOULD BE THE LIKELY EFFECT OF SHIFTING THE PROPORTION OF SET-ASIDE FUNDS?

GAO did a variety of analyses to answer this question. GAO first examined trends to determine if voluntary shifts already had occurred in the proportion of the grants that the states retain. Second, GAO investigated the nature and extent of differences in states retaining high and low proportions of the set-aside as a way of seeing what activities states might add or drop if the proportions shifted. Third, GAO described the other sources of funds states used to help meet the costs of activities funded by the set-aside. Finally, GAO asked state directors of special education for their views on the likely effect of a mandated shift.

The trend in voluntary shifts

Since 1979, fewer states have retained the full 25-percent set-aside each year. In 1979, 32 states retained the full amount. The number dropped steadily to 19 in 1984. Between 15 and 18 states have changed the retained proportion of their grants each year since 1979. Those that changed what they retained by as much as 1 percent generally decreased it, giving as a reason the greater need for the money at the local than at the state level. (pp. 31-32)

Differences in types of funded activities

GAO examined whether states retaining high proportions of their grants differ from states retaining low proportions of their grants in types of activities funded.

Tear Sheet

In relation to administration, GAO found no differences among states. That is, on the average, both the states that retained less than 15 percent of their awards and the states that retained the maximum 25 percent funded the same number of administrative personnel with their set-asides (about 27). (p. 33)

In contrast, there were clear differences in direct and support services between states in these two categories. The states that retained less than 15 percent spent a smaller proportion of their set-asides on research and evaluation, vocational education, preschool programs, and training for parents and spent a larger proportion on the comprehensive systems of personnel development, model programs, assessment centers, and residential placement. (p. 36)

The use of other funding sources

Half of the states used only the set-aside to fund the support staff involved in administering the set-aside. At least half that funded fiscal managers and legal and procedural personnel from the set-aside supported them with that source alone. However, no administrative category funded by the set-aside depends exclusively on the set-aside in every state: for administrative functions, most supplemented the set-aside with other state funds. (p. 39)

Eighteen or more states used the set-aside to fund model programs, advisory panels, materials development, and related services necessary to support the education of the handicapped. These four direct and support services depended wholly on the set-aside in at least half of those states, according to their reports. As with the administrative functions, however, no direct and support service was supported with only the set-aside in every state. Nearly all these services received state funds, and nearly all received other federal funds in some states. (p. 39-41)

Satisfaction with the status quo

Nearly two thirds of the state directors of special education were satisfied with current allocations of administrative, direct and support service, and flow-through funds,

although eight directors of small states had difficulty with the limit on administrative expenditures. Overall, the state directors indicated that a decrease in either portion of the set-aside would have more effect than an increase. (pp. 43-46)

The majority of the state directors said that a decrease in administrative money would mean cuts in staff and services. Ten directors of large states (of the 35 directors who addressed this question) told GAO that a decrease in direct and support service money would have no effect on their programs, but more than one third indicated that it would result in fewer state initiatives. (pp. 43-45)

In total, GAO's analyses of the likely effect of a mandated shift in the set-aside proportion show that, while the states have already shifted funds on their own, a mandated change would not be favored by state directors of special education. Moreover, the analyses of differences in activities in states retaining different proportions of their awards are consistent with the idea that a mandated shift could be accompanied by a change in the types of direct and support activities funded. GAO's information is not sufficient to comment on the availability of nonfederal funds to support activities that might be dropped in the event of such a shift.

CONCLUSIONS

The states' use of the set-aside is consistent with the federal legislation and meets their needs. GAO found, however, that several other issues deserve attention.

While 29 states set aside less than 25 percent of their grants, 19 states set aside the full 25 percent that is allowed. A decrease of 5 percent would formalize what the average state does, but the 19 states that set aside the maximum might be negatively affected. Letting the states make voluntary reductions would appear to conform with the legislative intention of giving the states flexibility in their decisionmaking. (p. 51)

The states vary greatly in the types of activities that they fund with the set-aside, particularly with the direct and support

service money. Therefore, if the Congress wants certain activities to be supported by the set-aside in all states, then more specific guidance is needed. Correspondingly, if there are activities states are funding that the Congress believes should not be supported by the set-aside, more specific direction is also needed. (p. 51)

Although 8 directors of the 11 small states are dissatisfied with the $300,000 cap on administrative expenditures, GAO did not find that other evidence is sufficient to comment on the merits of raising the cap. However, because dissatisfaction among the small states is widespread, the argument that they should have flexibility in allocating a larger percentage of funds for administrative purposes is worth investigating. (p. 51)

MATTER FOR CONSIDERATION BY THE SUBCOMMITTEE

A matter for consideration by the subcommittee is the fact that no national data have been available for monitoring or evaluating the set-aside program. The current regulations do not require the states to report even minimal information such as the proportion they retain from their grants and the proportions they use for administration and direct and support services each year. If this basic information were available, it would at least be possible to track trends in state and local allocations and to determine, among other things, whether the states are continuing to make voluntary reductions in the set-aside.

Including such information in the Department of Education's annual report to the Congress on Public Law 94-142 would provide national data that are not now available for making decisions about this $250 million program. GAO does not believe that collecting and reporting this information would add greatly to the states' or the department's burden. (pp. 51-52)

AGENCY COMMENTS

Officials of the Department of Education reviewed a draft of this report, and their oral comments have been incorporated as appropriate. Overall, they found the report

to be accurate and agreed with GAO's concluding observations. However, in the view of these officials, even minimally additional reporting provisions for the set-aside would likely require statutory or regulatory changes.

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ABBREVIATIONS

ADP/MIS	Automatic data processing and management information systems
GAO	U.S. General Accounting Office
NASDSE	National Association of State Directors of Special Education
OSEP	Office of Special Education Programs

CHAPTER 1

EXAMINING THE EFFECT OF THE SET-ASIDE

The Education for All Handicapped Children Act of 1975, Public Law 94-142, established the second largest federal program in elementary and secondary education. It is surpassed only by chapter 1 of the Education Consolidation and Improvement Act of 1981. In fiscal year 1984, the program was funded with slightly more than $1 billion. Of this, 25 percent, or more than $250 million, was set aside for allocation by the states while the rest was allowed to flow through directly to local education agencies.

Public Law 94-142 mandates a free, appropriate public education for every school-aged handicapped child. It is authorized as part B of the Education of the Handicapped Act, as amended (20 U.S.C. 1411-1418), which operates as a state-formula grant program with federal, state, and local responsibilities to fulfill the mandate and funds for these purposes. The program is administered at the federal level by the Office of Special Education Programs (OSEP) in the U.S. Department of Education.

OSEP indicated that 4,052,576 children were receiving services under this program on December 1, 1983. The states, the District of Columbia, and Puerto Rico received about $25 for each child in fiscal year 1984.[1] Of this amount, $193 was designated as flow-through and $64 was designated as set-aside.

The set-aside is the subject of this report. In conducting an oversight review of Public Law 94-142, the chairman of the Subcommittee on the Handicapped of the Senate Committee on Labor and Human Resources requested that we provide current evaluative information useful for generalizing about the use and effects of funds retained under the law by state education agencies. (The request letter is reprinted in appendix I.)

THE DEFINITION OF "SET-ASIDE"

The bulk of the program funds under Public Law 94-142 is distributed to the states by a formula that is based on their "child count," or the number of handicapped children identified and served. Each state, in turn, redistributes at least 75 percent of its grant as "flow-through" funds to local education agencies, basing the distribution on the number of handicapped students identified and served by each agency. The remaining 25 percent is "set aside."

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[1]A slightly different funding formula was used for American Samoa, the Bureau of Indian Affairs, Guam, North Mariana, the Trust Territory of the Pacific Islands, and the Virgin Islands.

Federal legislation and regulations divide the 25-percent set-aside into two broad categories: (1) administration and (2) direct and support services. A state may use 5 percent of its total allotment (or $300,000, whichever is greater) for administrative costs related to carrying out its responsibilities under Public Law 94-142. According to the regulations, these costs may be for administering the annual program plan and planning at the state level; approving, supervising, monitoring, and evaluating the effectiveness of local programs and projects; providing technical assistance to local education agencies; providing leadership services for program supervision and the management of special education activities for handicapped children; and supplying other state leadership and consultative services.

The set-aside funds that are not used for administration may be used for direct and support services. Direct services are defined in the regulations as services provided to a handicapped student by the state directly, by contract, or through other arrangements. Support services can include implementing a comprehensive system of personnel development, recruiting and training hearing officers and surrogate parents, and conducting public information and parent-training activities related to a free, appropriate, public education for handicapped children. The funds that are not used for administration or direct and support services go to the local education agencies as part of the flow-through.

WHY THE SET-ASIDE WAS ENACTED

Public Law 94-142 not only indicates a federal presence and commitment to special education; it also mandates specific behavior from the state and local education agencies that choose to participate. The state education agencies are treated as partners and are given responsibility for insuring the compliance of local education agencies with the law, disbursing funds, and overseeing implementation. The local education agencies are charged, among their other responsibilities, with identifying handicapped students and developing for each child an individualized education program that includes education in the least restrictive environment, all special education that is needed, and related services.

Before the law was enacted, nearly all the states had some mandated special education programs, but few could meet all the new federal requirements. Therefore, after the law's passage, most states had to change their statutes and regulations to comply with them. The degree of change on the part of state and local education agencies that the Congress expected is evidenced by both the lead time given for implementation (nearly 3 years) and the provision of the set-aside for the state agencies with the new responsibilities that went along with it. The federal government required the states to submit at a minimum a plan to

OSEP once a year (currently, every 3 years), review child counts and distribute funds to local agencies, establish and maintain due process, monitor local agencies for compliance, and provide them with technical assistance. These mandates forced the state agencies into new roles, particularly the roles of monitor and leader.

As the federal government required new behavior from the states, the local education agencies looked to them for guidance and direction. The local agencies needed assistance in interpreting certain procedural requirements of the law, such as that for the individualized education programs. They needed help in identifying handicapped students and increasing the number of special education teachers and therapists. They often turned to the state agencies for suggestions on implementing specific provisions of the law and asked the state agencies to expand a range of state activities from coordinating services in sparsely populated areas to lobbying the Congress.

The Congress clearly acknowledged the changing roles of the state agencies. The amount and distribution of set-aside and flow-through funds were debated during the passage of Public Law 94-142. The compromise that was passed provided a 50-percent flow-through to local districts and up to a 50-percent set-aside for state use during the first year of operations. After the first-year start-up, the amounts changed to the current minimum 75-percent flow-through and maximum 25-percent set-aside.

The set-aside has many elements of a block grant in the flexibility that states are allowed for determining priorities, in the very modest oversight and review required prior to expenditures, and in the permission of great variation between the states in actual allocations. The $250 million of the 1984 set-aside reflects congressional recognition of the new and extensive responsibilities given state agencies under Public Law 94-142 and congressional accommodation of the different needs of the states. At issue now is whether the federal prescription and support of state roles should shift yet again.

EXISTING INFORMATION ON THE SET-ASIDE

Although Public Law 94-142 has stimulated much discussion and research, relatively little information has been gathered on the functions or broad purposes of the set-aside or on the amount of the set-aside that the states choose to flow through to local school districts. The information that exists is largely a by-product of studies addressing issues other than the set-aside, and the data, for the most part, are based on small numbers of states and are not recent. Our discussions with OSEP staff and experts in the field and our review of OSEP reports and previous evaluations yielded little information on the set-aside that is either comprehensive or current.

OSEP administrative data

Although OSEP requires the states to submit 3-year program plans, these documents provide information only on the ways the states plan to use the set-aside. There are no details on actual administrative, direct and support, or flow-through expenditures or on the activities that are actually funded. Similarly, the states' annual performance reports on the use of their Public Law 94-142 grants do not require data on set-aside expenditures. Although some states provide some expenditure information, the lack of a standard set of reporting categories gives this information limited utility.

Data from national organizations

The only nationwide data on the set-aside come from two surveys conducted by the National Association of State Directors of Special Education (NASDSE), a professional association funded in part by OSEP. Relying on the states' reports, the first of the two surveys found that 20 states in 1979-80 flowed through the 75-percent minimum to local education agencies, 2 flowed through 100 percent or more, and 19 flowed through an amount between these extremes.[2] Nine states did not provide information. NASDSE also surveyed 9 selected states in 1983 and found that 1 state flowed through the minimum 75 percent and the 8 others flowed through more.

While it is interesting, NASDSE's 1983 survey does not permit meaningful comparisons to its earlier and larger effort. The difficulties include the nonrandom selection of the nine states in the 1983 sample, the failure of the 1979-80 survey to ask the states to report the percentages of funds retained for administration and for direct and support services, and the risks in interpreting trends, given only two points in time. Together, the studies underscore the need for historical data on the set-aside and suggest that the percentages that the states have retained have changed.

Earlier evaluations of set-aside uses

Relatively few studies have examined the use of Public Law 94-142 set-aside funds. Only four are useful for our purposes. One study examined one state (Arizona) during one year (fiscal year 1981) and reported that

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[2]The states are allowed to carry over unexpended funds from the previous fiscal year. The data do not consistently indicate whether the percentage flow-throughs are based on a single-year grant or on multiyear grants. See NASDSE, Report on SEA Use of Part B Discretionary Funds (Washington, D.C.: December 1983).

--80 percent of the state's grant was distributed directly to local school districts;

--5 percent was retained for administration, primarily for distributing and approving applications from local education agencies (which are required for flow-through funds) and for monitoring programs; and

--15 percent was awarded competitively for programs intended to serve handicapped students primarily in rural areas.[3]

The three other evaluations examined uses of the set-aside. Each was conducted in nine states. (One of the studies did not reveal which nine states were studied, and in the two other studies, three states were overlapped.) Blaschke et al. found that the states varied widely in the their use of the set-aside.[4] One state, for example, funded statewide projects in technical assistance and in-service training that provided services useful to both the state and local agencies; another state targeted the set-aside to districts with inadequate services and long waiting lists; still other states used the set-aside to leverage more state funds. Nonetheless, the authors discovered that the portion of the set-aside used for direct and support services was viewed by state agency staff as the "most significant" federal contribution to the implementation of Public Law 94-142.

One of the studies examined the ways that the state agencies allocate and manage their Public Law 94-142 awards.[5] Wide variation was found in the total percentage of funds allocated for direct and support services and in the specific activities funded. The most common allocations and activities (in descending order) were

--grants and contracts to local education agencies and intermediate educational units for programs such as vocational education, preschool education, and personnel development;

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[3]Lillian Reed, "Distribution of Federal Money Within the States," Journal of Learning Disabilities, 14:6 (1981), 325-29.

[4]Charles L. Blaschke et al., P.L. 94-142: A Study of the Implementation and Impact at the State Level, vol. 1, Final Report (Falls Church, Va.: Education Turnkey Systems, August 1981).

[5]Margaret A. Thomas, State Allocation and Management of P.L. 94-142 Funds (Santa Monica, Calif.: Rand Corp., 1980).

--grants and contracts to regional centers for administrative costs, "child find" programs, staff development, technical assistance, and information for parents;

--direct services, including special school tuition and transportation, and programs in state-operated institutions;

--personnel development systems; and

--research and development projects.

Explanations of differences in spending behavior were found to include a state's special-education history prior to the enactment of Public Law 94-142, standard operating procedures, demography (population density, for example), political climate, fiscal solvency, and financial goals.

The most recent accounting of set-aside funds comes from the 1983 NASDSE survey mentioned above. State directors of special education reported that funds were "critical" in

--initiating services to special populations,

--expanding service options,

--improving program quality,

--supplementing local capacity,

--meeting short-term or emergency local needs, and

--amassing funds for cooperative ventures with other state agencies.

Despite the variation in the states, most of them used a significant portion of the direct and support portion of the set-aside to provide direct or support services for special populations (for example, severely handicapped or multihandicapped students and infants) and technical assistance, training, and information services. Amounts and projects were specified state by state, but no explanations for differences in behavior were offered.

In table 1, we indicate the activities funded by the set-aside as determined from these four studies. Caution should be exercised in using the table, because it has been constructed from our interpretation of the studies, some of which listed by state the activities that each one supported with the set-aside and some of which listed only a few anecdotal examples. Furthermore, the list in the table is not exhaustive; we eliminated activities that were mentioned only once. Thus, while the table suggests that states are using the set-aside to

Table 1

State Activities Funded
by the Public Law 94-142 Set-Aside[a]

Activity	Blaschke[b]	NASDSE[c]	Reed[d]	Thomas[e]
Administration	*	*	*	*
Child find programs		*		*
Personnel development	*	*		*
Research and development		*		*
Services to special populations		*	*	*
Technical assistance	*	*		*
Tuition		*		*
Vocational education		*		*

[a]* = activity was mentioned.
[b]Charles L. Blaschke et al., P.L. 94-142: A Study of the Implementation and Impact at the State Level, vol. 1, Final Report (Falls Church, Va.: Education Turnkey Systems, August 1981).
[c]NASDSE, Report on SEA Use of Part B Discretionary Funds (Washington, D.C.: December 1983).
[d]Lillian Reed, "Distribution of Federal Money Within the States," Journal of Learning Disabilities, 14:6 (1981), 325-29.
[e]Margaret A. Thomas, State Allocation and Management of P.L. 94-142 Funds (Santa Monica, Calif.: Rand Corp., 1980).

fund a wide variety of activities, the need for more definitive national information is apparent.

OBJECTIVES, SCOPE, AND METHODOLOGY

The chairman of the Senate Subcommittee on the Handicapped asked us for answers to the following questions on the use and effects of the Public Law 94-142 funds that are retained by the state education agencies:

--What functions are the 25-percent set-aside funds fulfilling in the service of this law? What activities support these functions?

--What is the relationship between this money and other federal and state support for state offices with special-education functions? Has this money been used to supplant other federal or state funds?

--What is the probable effect on how state offices of special education function if the proportion of funds going to state education agencies relative to local education agencies were shifted?

Figure 1

Our Evaluation Questions

Questions and subquestions	Report reference
1. What functions are the 25-percent set-aside funds fulfilling in the service of Public Law 94-142?	
a. How do states use the administrative portion of the set-aside?	Ch. 3, pp. 17-21
b. How do states use the direct and support services portion of the set-aside?	Ch. 3, pp. 21-24
c. Who decides what percentage will be retained and how the set-aside will be used?	Ch. 3, pp. 24-25
d. What is the relationship between set-aside use and legislative intent?	Ch. 3, pp. 25-27
e. In the opinion of interest groups, what are the set-aside's functions?	Ch. 3, pp. 27-29
2. What is the relationship between the set-aside funds and other federal and state support for state offices of special education?	
a. What proportions of state budgets for special education come from set-aside and from other federal, state, and local sources?	Ch. 2, p. 14
b. To what extent do activities funded by the set-aside depend on set-aside funds?	Ch. 4, pp. 37-41
3. What would be the likely effect of shifting the allocation of the set-aside?	
a. What shift has occurred in the proportion of funds states retain?	Ch. 4, pp. 31-33
b. What are the differences in activities funded by states retaining different proportions of their grants?	Ch. 4, pp. 33-37
c. What other funding sources support activities funded with the set-aside?	Ch. 4, pp. 37-41
d. According to various groups, how would a shift in the allocation of the set-aside affect the program?	Ch. 4, pp. 41-47

As we show in figure 1, each of these questions was divided into further questions. The three main questions and their subquestions provided the framework for our evaluation and for this report.

Design considerations

The study design anticipated in the chairman's request was one that would consist of case studies in selected states. Given the short response time that was asked for and the concern for considerable detail on how programs function, the rich data that case studies provide seemed the appropriate approach. There was a potential difficulty, however, in that we might not be able to select a representative group of states because of such things as the unavailability of data and extreme variation in the states. As we noted above, our preliminary analysis indicated that the available data are old (and therefore unlikely to reflect currently evolving changes in the program), that state agency practices are highly varied, that what information there is is incomplete (there are no data useful for generalization on all issues, variables, or states), and that the available information is only marginally useful for addressing our evaluation questions.

These conclusions were reinforced by our own preliminary data collection efforts in 11 states. Data were collected on-site in structured interviews with chief state school officers, state directors of special education, and the coordinator of funds for the Education of the Handicapped Act and from state documents and reports. The information we collected indicates that the existing data for selecting states to study are outdated. Moreover, we found that the states vary widely on a number of dimensions, including restrictions and the use they make of the set-aside money and the relative federal, state, and local shares of special education budgets. It became clear to us, therefore, that the case study approach would not provide information useful for generalizations and that a multimethod data collection strategy would be necessary.

Finally, it was clear early in the project that even a multimethod approach would not allow us to answer, in the time available to us, the chairman's question about the supplanting of funds. Addressing this issue would have required trend data on state expenditures on all budget categories, not just education or special education, a requirement we could not meet rapidly. Further, since the prohibition against supplanting does not apply to the states' use of the set-aside, it was decided in conversations with the subcommittee staff that the supplanting question was of less interest than originally thought. Another, related issue that we did not address is the federal requirement that the states match set-aside funds for direct and support services with other money. Finally, we discovered that gathering the detailed information on alternative funding sources necessary to study the relationship

between the set-aside and these sources would be very difficult. Therefore, while we examined this question, we did so largely in the context of the availability of funds in the event of a set-aside shift.

Data collection strategies

We collected information to answer the remaining study questions in three ways. We conducted a national telephone survey of state offices of special education, and we interviewed federal officials, local educators, and special interest groups. We also made on-site visits to selected states.

National telephone survey

To gather comprehensive nationwide data pertinent to the study questions, we conducted a national telephone survey of state directors of special education, except those who designated others to respond, and state fiscal officers. All 50 states except New Mexico (which did not participate in Public Law 94-142 in 1980-83) and Hawaii and the District of Columbia (in both of which the state education agency and the local education agency are the same) participated in the survey. We collected background and policy information from each of the 48 state directors during a structured telephone interview of 1-1/2 to 2 hours. To collect financial information, we had earlier mailed data summary sheets that specified the information we would be requesting in the telephone contact. Then we interviewed the fiscal officers for each of the 48 state offices of special education in an interview lasting about 1 hour.

To make the telephone survey as accurate as possible, we used several procedures. We devised data collection instruments that would enable all the interviewers to ask the same set of structured questions. To increase still further the likelihood that different data collectors using the same instrument would obtain the same results, we trained staff members in interviewing techniques, assigned them randomly to the states, and collected the data over a short time period (approximately 3 weeks). We made follow-up calls as necessary to clarify responses.

Interviews

For a federal perspective, we interviewed the current director and all four former directors of OSEP. We questioned these officials about the background, functions, and uses of funds from the set-aside and about what might result from a shift in the relative percentages of flow-through and set-aside funds.

Because we wanted to learn educators' views on the set-aside, we interviewed eight national representatives of educators' groups: the American Association of School Admini-

strators, the American Federation of Teachers, the Council for Administrators in Special Education, the Council of Chief State School Officers, the Council for Exceptional Children, the National Association of State Boards of Education, the National Association of State Directors of Special Education, and the National School Boards Association. These groups are not statistically representative of all special interest groups in education, nor do they necessarily represent the views of all parents or children's rights advocates. However, each group has been at the forefront of the discussion of issues involving the special education of handicapped children.

Site visits

The third part of our data collection strategy involved on-site visits to offices of special education in three states, following the completion of the national telephone survey. By visiting these offices, we hoped to achieve a number of objectives. First, we believed that the possibility of an on-site follow-up visit would help elicit accurate responses to our telephone survey. Second, we hoped to examine state and local historical records on the functions and activities funded by the set-aside. Finally, on-site visits would allow us to verify selected responses from the telephone survey by examining current records. That is, they would allow us to assess which questionnaire items, if any, were unreliable and to identify the reasons for discrepancies between phone and on-site responses.

We visited Arkansas, Missouri, and Oklahoma. We selected these states randomly from the states that had already completed the telephone survey at the time our staff was scheduling the series of site visits. Two-person teams visited each state for 4 to 5 days. Each team identified the existence of individual grants and verified selected responses from the telephone survey. The documents they examined included, among others, records of individual awards made under the direct and support service provision of the set-aside, administrative expenditure reports, published and internal budgets, minutes of state board meetings, and annual reports.

Overall, the results of our state on-site visits give us confidence in the financial estimates and other responses we received during the national telephone survey. We were concerned most with verifying state responses to our survey questions about allocations from the set-aside for the 1984 state fiscal year (generally July 1, 1983, to June 30, 1984). Almost all the items selected for documentary verification produced findings similar to what we learned in the telephone survey. As described below, the few problems we encountered in the on-site data stemmed from the difficulty of tracing specific reports of specific expenditures to specific awards. Moreover, we could not track expenditures from the set-aside for fiscal years 1978-83 in the time available on-site.

While we were on-site, we also made contact with three local education agencies in each of the three states. We calculated how much money would go to each agency if the set-aside were decreased to a hypothetical 10 percent. Then we interviewed local directors of special education to find out what the effect of having these additional dollars would be.

We ampled an urban, a suburban, and a rural local education agency in each of the three states. To define urban, suburban, and rural areas, we examined county census data, and then we selected counties randomly within the three groupings. The state directors of special education in each of the three states nominated a local agency from the counties we specified, at least one of which was receiving funds from the set-aside. (See appendix II for a list of the nine local education agencies in the sample.) The information provided by the local respondents was useful, but because the sample was so small and was not selected randomly, we cannot generalize from that information to all local agencies or even to local agencies in the states we visited.

Difficulties in collecting financial data

In collecting financial information, we found two major difficulties. First, the reporting requirements for the set-aside do not mandate that the states use a uniform set of reporting categories to describe how they plan to or actually do use these funds. Although the triennial state plans must describe the number and type of administrative positions and each administrative and direct and support service activity to be funded with set-aside money, the states are allowed to provide this information in their own descriptive categories and in narrative form. In their annual performance reports on the use of their Public Law 94-142 grants, the states are not required to report the percentage of a grant that they retain or the percentages they use for administration and direct and support services; they are also not required to list their actual expenditures for activities according to a standard set of categories or even their own descriptors.

Therefore, not all the states kept the records that would have provided us with the detailed expenditure information in the categories that we needed it in. For example, one state could not identify what activities it supported with the administrative portion of the set-aside, and six other states could not identify expenditures for all administrative categories. Seven states could not provide information on their expenditures in the categories of direct and support services that we asked about.

Our second major problem in collecting financial data was in identifying the allocation of funds for a specific award year. The states have up to 27 months from the date of a grant to obligate the funds. Thus, budgetary data may overlap two or

more grant years; for example, a state may reserve a portion of a current set-aside to be carried over into the following year. For the most part, the respondents to our survey could not distinguish between the different allotments. Therefore, we studied only the use of set-aside money in the 1984 state fiscal year (July 1, 1983, to June 30, 1984), not the use of the federal 1984 fiscal year allocation.

Because of these two problems, the financial information presented in this report should be interpreted as estimates, not precise figures. The review was performed in accordance with generally accepted government auditing standards.

The organization of this report

As we illustrate in figure 1, we answer question 2 in chapter 2, presenting the complex funding context in which the set-aside operates. In chapter 3, we report our findings on the functions that the set-aside serves and on how the states use the set-aside, as requested in study question 1. We address the third study question in chapter 4, examining the potential effect of a shift in funds from flow-through to set-aside and presenting our findings on the changing role of the set-aside, current differences in the states, and the opinions of various interests in such shifts. In chapter 5, we summarize our findings and present some conclusions, a matter for consideration by the subcommittee, and agency comments.

CHAPTER 2

AN OVERVIEW OF THE SET-ASIDE AND TOTAL STATE SPECIAL EDUCATION FUNDING

In reviewing the Public Law 94-142 state set-aside, we began by looking at the set-aside in the context of all state funding for special education. This chapter provides that perspective. We show that the largest proportion of state special education budgets comes from state and local funds, not federal dollars. We also describe the percentage of the set-aside that the states retain, showing that most states keep less than the maximum allowed.

THE SET-ASIDE AND STATE EDUCATION BUDGETS

In the 1984 state fiscal year, the federal contribution to state special education budgets was relatively small. Twelve percent of the average state's special education budget came from federal sources while the remaining 88 percent came from state and local dollars.[1] The highest proportion that was reported for federal dollars was 33 percent. The lowest was 4 percent. (These are rough estimates because it was difficult for the states to identify local contributions precisely.)

The Public Law 94-142 set-aside constituted less than 0.3 percent of the average state's elementary and secondary education budget and only about 3 percent of its special education budget for 1984. (This information is presented by state in appendix III.) In short, federal funds in general and the set-aside in particular are but a small piece of all the funds going to state special education.

HOW THE SET-ASIDE IS DISTRIBUTED

States may retain, or set aside, up to 25 percent of their Public Law 94-142 grants. They must distribute the remaining 75 percent of their grants as direct flow-through to local education agencies. During 1984, the majority of the states did not retain the full 25 percent that they were allowed. Twenty-nine states, or about 60 percent, kept less than 25 percent, as we show in table 2. The average state retained about 20 percent of its award. The smallest amount that was retained was 7 percent.

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[1]Throughout this report, information for the "average state" describes the average (mean) figure for all states responding to our requests for data. "Fiscal year" refers to the state fiscal year unless noted otherwise.

Table 2

The Distribution of the Set-Aside by State Size (1984 State Fiscal Year)[a]

Percentage retained	States: Small n	Small %	Large n	Large %	All n	All %
No. of states reporting	11	100	37	100	48	100
Total						
Less than 25%	5	45	24	65	29	60
25%	6	55	13	35	19	40
For administration						
Less than 5%	0	0	6	16	6	12
5%	0	0	31	84	31	65
More than 5%	11	100	0	0	11	23
For direct and support services						
Less than 20%	11	100	24	65	35	73
20%	0	0	13	35	13	27

[a]Percents are rounded to the nearest percent.

In general, the states can retain up to 5 percent of their grants for administration. But a grant of less than $6 million makes a state eligible for allocating more than 5 percent (or up to $300,000) for this purpose. Eleven states were in this category in 1984: Alaska, Delaware, Idaho, Montana, Nevada, New Hampshire, North Dakota, Rhode Island, South Dakota, Vermont, and Wyoming. These states are commonly referred to as "small" states because their grants, which are based on the number of handicapped children being served in the state, are smaller than grants in other states.

Table 2 shows also that 42 states retained the maximum allowed for administration in 1984. Only 6 states, all of them "large," retained less than the 5 percent allowed under the law. The minimum amount that was retained was 3 percent.

Set-aside funds that are not allocated for administration may be used by the states for direct and support services. Thirty-five states, or nearly three quarters of the 48, retained less than 20 percent of their awards for this purpose. This finding holds true for the 11 small states and 24, or 65 percent, of the large states. In North Dakota, none of the set-aside was retained for direct and support services because this state funds these services solely on its own.

If we look at the total set-aside picture for the average state in 1984, we find that the average state retained approximately 20 percent of its Public Law 94-142 award. It used about 6 percent for administration (a figure that applies also to the small states) and about 14 percent for direct and support services. Thus, the average state retained the maximum for administration but kept less than it could have for direct and support services, flowing through more than was required to local education agencies. (The set-aside distribution for each state is presented in appendix IV.)

SUMMARY

In 1984, most of the states retained from their Public Law 94-142 grants the maximum percentage allowed for administration; only 6 states kept less than the 5-percent maximum. In contrast, nearly three quarters of the states kept less than 20 percent for direct and support services. In total, the majority of the states retained, or set aside, a smaller percentage of their awards than they were allowed. Moreover, what they did retain represented only about 3 percent of all the funds going to special education in the average state. The majority of state special education funding came from state and local contributions.

CHAPTER 3

SET-ASIDE ACTIVITIES AND FUNCTIONS

While the activities that the states fund with their set-asides vary from state to state, the funds are being used as the Congress intended. From the perspective of state directors of special education and representatives of education-interest groups, the set-aside is helping to insure a free and appropriate public education for handicapped students.

HOW THE SET-ASIDE IS BEING USED

The states vary in the activities they fund and in the proportions of the set-aside they use for administrative purposes and for direct and support services. There are more similarities for the administrative portion of the set-aside than for the portion that can be used for direct and support services.

Administrative activities

We asked state offices of special education to list the types of personnel that they had funded with the administrative portion of their set-asides. Given the reports from 47 state offices, it appears that all the states use set-aside funds for personnel in department operations.[1] These personnel include administrators (some of whom also administer other federal programs for the handicapped), supervisors, compliance-monitors, planners, researchers, and evaluators. People who coordinate the state special education program with other state agencies, local education agencies, private schools, and other states are included in this category. Each of the 47 states also uses the administrative set-aside for support personnel--secretaries, clerks, editors, data processors, and so on. Other personnel categories widely supported by the set-aside are in program operations (33 states), fiscal management (32 states), legal and procedural operations (29 states), and consultants in professional development (23 states). The administrative categories for which set-aside funds are used are shown in table 3 on the next page.

Program operations personnel include consultants who are experts on specific handicapping conditions or on specific populations (for example, preschool children and handicapped people with limited English-speaking skills), the staff members of resource centers, and other specialists like psychologists and psychometricians. Fiscal-management personnel include accountants, auditors, and bookkeepers. The legal and

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[1]As we mentioned in chapter 1, one state could not describe the administrative activities it funded with the set-aside.

Table 3

The Personnel and Other Administrative Categories That States Funded from the Administrative Portion of the Set-Aside

tegory	States funding category[a] n	%	% of each state's administrative set-aside[b] Highest	Lowest	Average	Average % all states[c]
partment operations	47	100	62	1	26	26
pport personnel	47	100	24	d	12	12
ogram operations	33	70	58	d	16	11
scal management	32	68	24	1	7	5
gal and procedural operations	29	62	20	1	6	3
erating expenses	25	53	43	3	17	9
pital equipment	24	51	27	d	3	1
ofessional development consultants	23	49	27	1	6	3
her, nonpersonnel	21	45	26	1	11	5
avel	17	36	33	1	9	3
her, personnel	13	28	25	2	11	3
inge benefits	12	26	19	5	10	3
direct costs	11	23	25	5	14	3
visory panel	3	6	1	d	1	d
expended funds remaining	4	10	51	7	25	2
rryover	4	10	84	40	60	7

ased on reports from 47 states; some personnel categories were coded after the act from respondents' descriptions; rounded to the nearest percent.
ounded to the nearest percent.
ased on reports from 41-47 states, depending on the category; rounded to the earest percent.
.5 percent or less.

Table 4

Types of Staff That States Funded from the Administrative Portion of the Set-Aside[a]

Staff	Total staff funded	
	n	%
Support personnel	387	31
Department operations	345	28
Program operations	194	16
Fiscal management	113	9
Professional development consultants	66	5
Legal and procedural operations	61	5
Other	63	5
Total	1,229	99

[a]Based on reports from 46-47 states, depending on the category. Percents are rounded to the nearest percent.

procedural operations staff, who deal with due process and complaint management, generally include attorneys and hearing officers. Professional-development consultants include staff who are engaged in the certification of teachers and staff who develop the states' plans for a comprehensive system of personnel development.[2] In all, the states nationwide used administrative set-aside funds to support, at least in part, more than 1,200 staff members in state education agencies, as we show in table 4.

The set-aside also pays for other administrative costs. These include travel, indirect expenses, operating expenses, fringe benefits, capital equipment, and expenses associated with the state advisory panels that are provided for in Public Law 94-142. Four states reported having administrative set-aside

[2]These plans are required by federal regulations (34 C.F.R. 300.380) and must include procedures for assessing staff needs, providing in-service training, identifying and disseminating information about promising practices, and providing evaluation and technical assistance to schools. The funds are targeted to parents, teachers, and administrators who work with handicapped children.

money still remaining to be spent, and another four states had funds that they had carried over from previous years (see table 3).

Which of these categories accounts for the largest percentage of set-aside funds? To answer this question, we analyzed administrative expenditures state by state and then summarized the administrative set-aside money in each category for all the states. The state-by-state analysis showed that the average state used 26 percent of its administrative set-aside for staff in department operations, 12 percent for support personnel, and 11 percent for staff in program operations. (As we have noted in table 3, these figures are for all the states that reported, including those that do not support particular categories with the set-aside.) Moreover, from the summarized or total funding analysis, reflected in table 5, we determined that these three categories accounted for a substantial portion of the $47,776,000 set-aside reportedly spent by all the states for administrative purposes during 1984. Twenty-two percent of this amount was used for personnel in department operations, 12 percent for personnel in program operations, and 11 percent for support personnel.

Table 5

State Expenditures from the Administrative Portion of the Set-Aside, by Category[a]

Category	Total $	% of all administrative $
Department operations	10,646,000	22
Program operations	5,898,000	12
Support personnel	5,442,000	11
Operating expenses	3,638,000	8
Other activities	3,442,000	7
Fiscal management	2,339,000	5
Carryover	6,134,000	13
Other accounting for less than 5%	10,237,000	21
Total	47,776,000	99

[a]All categories but one account for 5 percent or more of the total set-aside dollars states spent for administrative purposes in fiscal year 1984. Dollars are rounded to the nearest $1,000, percents to the nearest percent.

As can be seen in these tables, we also found considerable differences in the proportion of administrative set-aside funds that the states use for the same activity. For example, one state spent only 1 percent of its administrative set-aside dollars on department operations, while another used 62 percent for this purpose. One state used 27 percent of its administrative set-aside for capital equipment, while the average state spent only 1 percent for this purpose. Similar examples can be found for other categories reported in table 3.

Direct and support services

The activity most frequently funded from the direct and support portion of the set-aside is personnel development. Specifically, the states use set-aside funds to implement their comprehensive systems of personnel development, by which states assess their training needs and provide training and technical assistance to staff and parents at the local level. Thirty-two states, or more than three quarters of the 41 states describing their direct and support services, used the set-aside for this purpose.

Other activities frequently supported by the direct and support portion of the set-aside are the development of model programs (24 states, or 59 percent of those responding), the development of materials (20 states, or 49 percent), and the support of vocational programs (19 states, or 46 percent). Nineteen states, or 46 percent of those responding, also used the set-aside to support advisory panels.

Somewhat less than 45 percent of the respondent states fund quite a variety of other activities as well. These include "related services," or support services required to help handicapped children benefit from special education (18 states); research and evaluation (17 states); residential placement (15 states); assessment centers (15 states); interagency coordination (15 states); state and regional programs for children with low-incidence handicaps and direct services for children with specific handicaps (13 states); "child find" services (12 states); the training of parents (12 states); the training and recruitment of hearing officers (11 states); preschool programs (10 states); summer programs (9 states); procedural safeguards (8 states); programs for infants (6 states); data processing or management information system implementation (3 states); technology for the handicapped (3 states); and transportation (2 states).

To determine the level of support for each of these activities, we looked again at direct and support service set-aside dollars state by state and in the nation as a whole. (See tables 6 and 7 on the following pages.) Both analyses showed that the following categories are the most heavily supported by the direct and support service portion of the set-aside:

Table 6

Direct and Support Services That States Funded with the Set-Aside[a]

Service	States funding service		% of each state's direct and support service set-aside			Average % all states[b]
	n	%	Highest	Lowest	Average	
Comprehensive system of personnel development	32	78	47	c	17	13
Model programs	24	59	80	1	16	9
Materials development	20	49	24	c	5	2
Advisory panel	19	46	[illegible]	c	1	0
Vocational programs	19	46	21	c	6	3
Related services	18	44	51	1	14	6
Research and evaluation	17	41	43	c	7	3
Residential placement	15	37	99	1	25	9
Assessment centers	15	37	80	c	23	8
Interagency coordination	15	37	55	1	12	4
Child find	12	29	43	c	9	2
Parent training	12	29	34	1	6	2
Recruitment and training of hearing officers	11	27	12	c	2	1
Preschool programs	10	24	22	c	7	2
Summer programs	9	22	21	1	8	2
Procedural safeguards	8	20	18	c	4	1
Infant programs	6	15	7	c	3	c
Transportation	2	5	24	2	13	1
Other activities[d]	26	63	94	2	35	22
Remaining to be spent	6	15	89	2	38	6
Carryover	5	12	80	6	28	3

[a]Based on reports from 41 states; excludes 1 state that did not use set-aside funds for direct and support services and 6 states that did not provide information; rounded to the nearest percent.

[b]Based on reports from 40 states; rounded to the nearest percent.

[c]0.5 percent or less.

[d]Statewide and regional low-incidence programs and direct services for specific handicaps (13 states, 32 percent), ADP/MIS implementation (3 states, 7.3 percent), technology for the handicapped (3 states, 7.3 percent), miscellaneous (7 states, 17 percent).

Table 7

State Expenditures from the Direct and Support Services Portion of the Set-Aside, by Category[a]

Category	Total $	% of all direct and support $
Comprehensive system of personnel development	15,210,000	12
Related services	12,065,000	10
Residential placement	11,912,000	10
Model programs	7,740,000	6
Interagency coordination	5,665,000	5
Assessment centers	5,531,000	5
Carryover	9,025,000	7
Other accounting for less than 5%	55,511,000	45
Total	122,659,000	100

[a]All categories but one account for 5 percent or more of the total set-aside dollars states spent for direct and support services in fiscal year 1984. Dollars are rounded to the nearest $1,000, percents to the nearest percent.

--comprehensive systems of personnel development. The average state spent 13 percent of its direct and support service set-aside dollars for this purpose (the average includes states that do not use set-aside funds for this purpose), and this category accounted for 12 percent of the $122,659,000 in set-aside expenditures for direct and support services in 1984.

--residential placement. The federal regulations specify that if providing special education to a handicapped child requires a residential placement, this service must be provided at no cost to the child's parents. For the 15 states spending some set-aside money for this purpose, the relative cost was substantial; on the average, residential placements accounted for one quarter of all their direct and support service set-aside expenditures. Looking at all the responding states, such placements consumed 9 percent of the average state's direct and support service set-aside dollars for 1984 and 10 percent of the total dollars nationwide.

--model programs. Model programs are innovative programs whose practices are worth making known to others. Examples include preschool summer and secondary special education programs. The state average for this category

was 9 percent, and the category's share of the total was 6 percent.

--related services. Related services may consist of transportation and developmental, corrective, and other support services required to help a handicapped child benefit from special education. Speech pathology, audiology, psychological services, counseling, physical and occupational therapy, recreation, social work, and health services are included. While this category accounted for only 6 percent of the average state's direct and support service set-aside dollars, it accounted for 10 percent of all set-aside dollars spent nationwide on direct and support services.

--assessment centers. The 15 states funding such centers with the set-aside spent on the average nearly one quarter of their direct and support service set-aside money for this purpose. For all the states, this category accounted for 8 percent of the average set-aside expenditures for direct and support services and 5 percent of the nationwide total.

We found that set-aside dollars from previous years were included in five states' direct and support service expenditures for 1984 and that six states had not yet fully allocated direct and support service set-aside funds for 1984 to specific categories (see table 6).

Further, as with administrative activities, our analysis showed great variation among the states not only in the activities they funded but also in the level of support they gave to direct and support services. For example, one state spent nearly all the direct and support service portion of its set-aside on residential placements while other states spent no set-aside funds for this purpose. One state spent 80 percent of its direct and support set-aside for model programs while the average state spent 9 percent. Other examples are evident in table 6. Thus, the overall picture is one in which the states seem to have used the flexibility allowed by the legislation to make many different choices about using direct and support service set-aside dollars.

Decisionmaking for set-aside activities

Although the states fund a variety of activities with the set-aside, making the decision about how much money will be retained and how it will be spent is remarkably similar from state to state, especially for the administrative portion. Forty-two states report placing no legal restrictions on the use of administrative set-aside funds, and more than 90 percent of the 45 states responding to our questions reported that the state education agency decides or helps decide what dollar amount of the administrative portion to retain and how to spend

it. Eighteen states, or 40 percent of those answering the question, reported that other state agencies also help with the decision of how much money to retain.

As with the administrative set-aside, most of the states (39) have placed no restrictions on their use of direct and support service set-aside funds. However, the participants in the decisions about these funds are somewhat different. The state education agency dominates, but other state agencies and the public also take a significant part in some states.

THE FUNCTIONS THAT THE SET-ASIDE SERVES

To find out what functions or general purposes the various activities serve, we grouped the activities that the states had described for us according to the broad uses of the set-aside that are specified in the federal regulations. Then we asked the state directors of special education to identify the purposes they thought were being served by the set-aside activities in their states. Finally, we interviewed federal officials and representatives of special-education interest groups. We found that set-aside activities are not only fulfilling the broad purposes that are outlined in the federal regulations but are also serving more specific functions that are important in the perspective of state directors of education, federal officials, and others with direct interests in education for the handicapped.

The activities set forth in the federal regulations

The Congress intended that the set-aside be used both to cover the costs of administering the law and to give the states flexibility in meeting their needs. According to the regulations for Public Law 94-142, the administrative portion of the set-aside may cover the costs of state planning and administering the annual program plan; approving, supervising, monitoring, and evaluating the effectiveness of local programs and projects; giving technical assistance to local education agencies; and providing leadership for program supervision, the management of special education activities, consultative services, and the like. The remainder may be used for providing services directly to handicapped children or by contract or other arrangements and for providing other support services that include

> "implementing the comprehensive system of personnel development . . . recruitment and training of hearing officers and surrogate parents, and public information and parent training activities relating to a free appropriate public education for handicapped children." (34 C.F.R. 300.370(b)(2))

Figure 2

How Set-Aside Activities Serve Functions Specified in the Federal Regulations

Function	Activity
1. Administration of the annual program plan and planning at the state level	Fund personnel for department operations (compliance monitoring, administration, supervision, school coordination, research, evaluation)
2. Approval, supervision, monitoring, and evaluation of local programs and projects	Support operations (clerical and program personnel) Program operations (consultants, resource center staff, population experts, other specialists) Legal and procedural functions (due process specialists, attorneys, complaint managers, hearing officers) Professional development (comprehensive systems of personnel development, teacher-certification specialists) Other (technical assistance, parent training, and costs for travel, fringe benefits, indirect and operating expenses, advisory panels, capital equipment)
3. Assistance in planning programs and projects	Plan and evaluate programs and projects Disseminate information
4. Technical assistance to local education agencies	Develop materials Demonstrate use of new technology Provide technical assistance to specific programs and populations and for identifying and evaluating children
5. Leadership and consultative services	Coordinate states and agencies Fund or develop model programs and agencies and innovations Research and evaluation Disseminate information and models
6. Support services	Fund comprehensive systems of personnel development Fund in-service training, officer training and recruiting, and parent training Fund advisory panels, materials development, and enhancement
7. Direct services to a handicapped child by the state directly, by contract, or by other arrangements	Operate expanded programs (vocational, school-to-work, infant, preschool, summer, residential placement) Provide low-incidence specific-handicap services (consultants, regional or state centers, direct services, equipment) Operate "child find" programs

The federal regulations break these functions into the seven that are shown in figure 2, which also shows that the set-aside activities described by the states cut across several of these categories. An example is the program-planning function of the administrative portion of the set-aside (function 1 in the figure). Funding a consultant for hearing-impaired children might fulfill this function. The consultant might help a teacher plan a deaf child's individual educational program and might also arrange for more direct services for the child and for services to support a computer component of the child's educational program. Thus, planning, technical assistance, and some direct and support services might be intertwined or indistinguishable and in fact frequently are. Figure 2 is intended to show that despite the fact that some activities can support more than one function, the activities that the states fund with the set-aside are consistent with the congressional purposes.

Functions in the opinions of state directors of special education

State directors of special education are at the center of special education services. They are the contact point for federal communication with the states. They make state and local needs known to the federal government and share information with one another, both through their organization, the National Association of State Directors of Special Education, and more directly.

We asked state directors to describe the general functions that their state set-aside activities serve and grouped their responses into categories. The most frequent response (given by 23 directors, or 54 percent of the 43 who answered) was the very general one of insuring a free and appropriate public education for handicapped children. The more specific answers were more informative.

--Monitoring for compliance was mentioned by 19 state directors, or 44 percent of those responding.

--Filling gaps and crisis intervention are important, according to 12 respondents, or 28 percent of those answering. These activities include dealing with emergency situations, such as the sudden appearance midway through a school year in a rural district of a severely handicapped child; making direct, support, and assessment services and on-going monitoring activities available throughout a state; rectifying deficiencies in a district's programs; giving financial assistance for students for whom costs are high; and developing model programs for specific populations.

--Insuring due process, handling complaints, and training and recruiting hearing officers made up another category

that was mentioned by 10 respondents, or about 23 percent of the states.

--State leadership was mentioned by 9 respondents, about 21 percent of those we talked to. The comments on their questionnaires mentioned general roles in across-the-board administration of the law, targeting priority areas, and financially shoring up weak spots in local education agencies. The respondents listed very specific activities that exemplify these roles, such as developing model programs and operating statewide and regional professional service centers. They also mentioned state leadership in coordination, in transferring children from institutions to the community, and in establishing outreach and dissemination activities for programs for the deaf and blind. Program evaluation, the professional development of teachers, and responding to the needs of the children with severe physical handicaps were also mentioned.

Somewhat less than 20 percent of the state directors said that their funds were spent for, among other things, serving special populations (such as preschool children who are handicapped and the hearing impaired and emotionally disturbed), developing innovative programs, planning and evaluating programs, providing technical assistance, coordinating services, expanding local services, and providing personnel training and development.

Functions in the opinion of federal officials and special interest groups

We interviewed five federal officials and eight representatives of special interest groups. The federal officials were past and present directors and key staff of OSEP. The others were representatives of the American Association of School Administrators, the American Federation of Teachers, the Council for Administrators of Special Education, the Council of Chief State School Officers, the Council for Exceptional Children, the National Association of State Boards of Education, the National Association for State Directors of Special Education, and the National School Boards Association.

On a five-point scale from least to extremely important, two set-aside purposes were rated "extremely important" the most frequently (50 percent of the respondents): (1) giving state education agencies the ability to improve the quality of educational programs for the handicapped and (2) bringing local education agencies up to required standards by expanding the services that they provide to handicapped children. Rated "extremely important" almost as frequently were (3) allowing the state education agency to help meet emergency needs and (4) insuring compliance with the law, as in providing education in the least restrictive environment.

These four high-ranked purposes cover the spectrum of functions allowed by the legislation. The first two reflect the respondents' belief in the set-aside's importance in improving quality and upgrading services at the local level. The third and fourth reflect the utility of the set-aside in filling local service gaps and in insuring compliance with the law. Thus, the functions of the set-aside as viewed by federal officials and interest groups closely parallel the functions mentioned by state directors of special education.

SUMMARY

In 1984, the average state spent almost one half of its administrative set-aside funds for department operations staff (administrators, supervisors, compliance-monitors, planners, and evaluators), support staff (secretaries, clerks, data processors, and others), and program operations staff (consultants, psychologists, psychometricians, and the like). These three categories accounted for 45 percent of the $47,776,000 in administrative set-aside expenditures reported by the 47 states that had information for 1984.

Thirty-two of the 41 states that described their direct and support services used their set-aside dollars for their comprehensive systems of personnel development, through which they assess local training needs and provide training and technical assistance at the local level. These systems accounted for 13 percent of the average state's direct and support service set-aside dollars and 12 percent of the $122,659,000 in set-aside direct and support service expenditures reported by all the states for 1984. When combined with residential placements, model programs, related services, and assessment centers, they accounted for 43 percent of all direct and support service set-aside dollars for 1984.

However, a variety of other direct and support services were also funded by set-aside dollars at a variety of levels: research and evaluation, interagency coordination, programs for students with low-incidence handicaps, direct services for children with specific handicaps, "child find" programs, parent training, the recruitment and training of hearing officers, procedural safeguards, summer programs, programs for infants and preschool children, implementation of data processing or management information systems, technology for the handicapped, and transportation.

All these activities can be placed in one or more of the seven broad functional categories specified for the use of set-aside funds in the Public Law 94-142 regulations. Therefore, while the activities that the states fund vary considerably, the states' use of the set-aside is consistent with the purposes that were intended by the Congress. Moreover, the state directors of special education believe that the set-aside serves the general purpose of insuring a free and

appropriate public education for handicapped students in the least restrictive environment. More specifically, they say that it assists the states in monitoring local compliance with the requirements of the law, filling gaps and doing crisis intervention, insuring due process, and providing state leadership. Similar views were expressed by the federal officials and representatives of the interest groups that have immediate interest in the education of the handicapped.

CHAPTER 4

THE LIKELY EFFECT OF SHIFTING THE SET-ASIDE FUNDS

In this chapter, we present our findings on what might happen if there were a federally mandated shift in the proportion of Public Law 94-142 funds that the states may set aside, or retain, allowing more to flow directly through to local education agencies. We addressed this question in four ways. First, we examined historical trends to see whether a shift has already occurred and, if so, what its effect is. Second, to find out what activities the states might add or drop if the proportion were shifted, we investigated the nature and extent of the differences in the states that retain high and those that retain low proportions of their awards. Third, to determine if other sources could be found for the support of activities currently funded by the set-aside, we attempted to identify sources other than the set-aside that are now being used. Finally, we asked federal officials, state directors of special education, and interest groups to address this issue. None of these analyses provides a definite picture of the likely effect of shifting the funds, but together they show a general agreement that no major legislative change should be made and that some voluntary change has already occurred.

TRENDS IN THE SET-ASIDE

From 1979 through 1984, the average percentage that the states retained each year was always below the allowable 25 percent. Moreover, in general the average percentage has decreased from the previous year (except that in 1984 there was a slight increase), and so has the number of states retaining the maximum. In 1979, 32 states retained at least 25 percent of their awards. In 1980, this number decreased to 26. In 1981, it was 24. In 1982, it fell to 22, in 1983 to 20, and in 1984 to 19.

The changes over the years in retained percentages have been slight. Thus, while the average retained percentage stood at about 22 percent of the total award in 1979, today it is about 20 percent.

During any one year, roughly two thirds of the states retained the same percentage of their grants as they retained in the previous year. A total of 15 states changed in 1980, 15 in 1981, 16 in 1982, 18 in 1983, and 14 in 1984. Except for 1984, most of these changes represent decreases in set-aside percentages. We summarize these data in table 8 on the next page.

Thus, while the yearly changes have been small, the net effect of the pattern of decreases has been substantial. The average percentage retained for 1984 represents a five-point voluntary

Table 8

Percentage of Public Law 94-142 Grants That States Retained in State Fiscal Years 1979-84 and the Number Changing from the Previous Fiscal Year[a]

	1979	1980	1981	1982	1983	1984
% retained						
No. of states reporting	(46)	(45)	(48)	(48)	(48)	(48)
Highest	50.0	25.0	25.0	25.0	25.0	25.0
Average	22.2	21.3	20.0	20.0	19.6	19.7
Lowest	5.0	6.0	5.0	6.0	6.0	7.0
No. changing[b]						
No. of states reporting		(45)	(45)	(48)	(48)	(48)
Decease		10	10	9	13	7
Increase		5	5	7	5	7
No change		30	30	32	30	34

[a]Information requested from 48 states. Funding for Public Law 94-142 was first available for some states in 1979; during this year (and this year only) these states were allowed to retain up to 50 percent of the grant.
[b]A change of less than 1 percent counted as no change.

decrease from the allowable maximum of 25 percent. As we noted in chapter 2, for most of the states the decrease has cut into the direct and support service portion of the set-aside.

State directors of special education were not able to give us the reasons for the changes before 1982. For the more recent decreases one basic reason was cited: the greater need for money at the local than at the state level, to compensate in part for a lack of state funds to meet special education costs and in part for an increase in local costs.

Did these changes affect the activities that are funded by the set-aside? For example, did the states that lowered what they retained also cut services or fund them at a lower level? Unfortunately, we were not able to answer this question. Many states had difficulty providing information on their expenditures for 1984 and, in general, they could not provide this information for previous years.

Thus, our conclusion about the likely effect of a federally mandated shift given historical trends is limited to the statement that the states have made a shift on their own, always

retaining less than allowed and generally retaining less than the previous year. While the change in the average retained percentage is only from about 22 to about 20 percent over a 6-year period, its net effect is that the average retained percentage for 1984 represents a five-point voluntary decrease from the allowable maximum of 25 percent. Multiplying by 25 percent (the allowable set-aside) the reported award for each of the 47 states reporting this information shows that they were eligible to retain approximately $243.9 million in 1984. The sum they actually retained was about $190.7 million. Therefore, the 5-percent voluntary decrease means that about $53.2 million more went to local education agencies.

ACTIVITIES IN STATES RETAINING DIFFERENT PROPORTIONS OF THEIR GRANTS

We placed the states in one of three categories, depending on what percentage of their awards they retained in 1984. Twelve "low" states retained less than 15 percent of their 1984 awards; 17 "medium" states retained 15-24 percent; 19 "high" states retained 25 percent. Examining the differences in the activities of the states in the low, medium, and high categories, we found that a percentage increase or decrease might be accompanied by consistent changes in direct and support services but not in administrative categories funded with the set-aside.

Differences in administrative personnel

We found no support for the idea that a percentage increase or decrease in the set-aside, and a corresponding decrease or increase in the amount of money distributed directly to the states, would be accompanied by a consistent change in the numbers of administrative personnel that are funded with set-aside dollars.[1] On the average, the states retaining a low percentage of their awards fund the same number of administrative staff with their set-aside as the states retaining a high percentage of their awards. Both funded an average of 27.4 administrative personnel. For states in the middle group, the average was 24.1. That is, the number of staff supported by the set-aside did not go up consistently with the retention of the grant.

This finding holds true for personnel expenditures overall and for specific personnel categories. With one exception, in each case, the numbers did not increase consistently with the retention of the total grant. The exception is in the program-

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[1]This analysis was limited to administrative personnel categories because, in general, less than half the states used the set-aside for nonpersonnel categories (see table 3).

Table 9

Average Number of Administrative Personnel Funded by the Set-Aside in States Retaining Low, Medium, and High Percentages of Their 1984 Public Law 94-142 Grants, by Category[a]

Category	Average number of staff: Low states (up to 15%)	Medium states (15-24%)[b]	High states (25%)	Average % all states
No. of states reporting	(12)	(16)	(19)	(47)
Department operations	9.0	6.5	7.4	7.5
Support	9.0	6.5	9.5	8.4
Program operations	2.3	3.9	5.4	4.1
Fiscal management	2.1	1.8	3.2	2.4
Legal and procedural operations	1.1	1.4	1.4	1.3
Professional development consultants	1.1	1.9	1.2	1.4
Other	2.5	0.6	1.4	1.4
Total[c]	27.4	24.1	27.4	26.3
Administrative portion of set-aside	66%	62%	73%	67%

[a]Based on reports from 46-47 states, depending on the category. Percents are rounded to the nearest percent.
[b]One "medium" state reported no information for this table.
[c]Based on reports from 42 states.

operations category, as can be seen in table 9. "High" states funded about 1.5 administrative positions more in this category than "middle" states and about 3 more than "low" states.

Differences in direct and support services

States retaining different percentages of their awards differ in the number of different kinds of direct and support services they fund with the set-aside. The reports from 41 states reveal that the average "low" state funded 4.8 different types of direct and support service with its set-aside in 1984, while the average "medium" state funded 6.2 and the average "high" state funded 6.5 different types of service. These differences are small in an absolute sense but large in a relative sense. That is, the states that retained a low percentage of the set-aside funded, on the average, about 25 percent fewer types of direct and support services with the set-aside than the states that retained a high percentage.

We found a clear pattern of difference also in the percentage of the set-aside that is spent on various direct and support services (see table 10). Compared to other states,

Table 10

Percentage of Direct and Support Service Set-Aside Funds Spent by States Retaining Low, Medium, and High Percentages of Their Public Law 94-142 Grants, by Category[a]

	Average % spent			
Category	Low states (up to 15%)	Medium states (15-24%)	High states (25%)	Average % all states
No. of states reporting	(12)	(11)	(17)	(40)
Missing states	(0)	(5)[b]	(2)	(7)
Advisory panel	c	1	c	c
Assessment panel	15	7	4	8
Child find	c	7	1	2
Comprehensive system of personnel development	17	14	9	14
Infant programs	c	1	1	c
Interagency coordination	5	2	5	4
Materials development and enhancement	2	1	4	3
Model programs	13	9	7	9
Parent training	1	1	3	2
Preschool programs	0	2	3	2
Procedural safeguards	1	c	1	1
Recruitment and training of hearing officers	1	1	c	1
Related services	9	3	6	6
Research and evaluation	2	2	5	3
Residential placement	14	8	6	9
Summer programs	3	2	1	2
Transportation	0	2	b	1
Vocational education	2	2	4	3
Other activities[d]	17	19	29	23
Remaining to be spent	0	9	7	6
Carryover	0	8	3	4

[a]Rounded to the nearest percent.
[b]Excludes North Dakota, a medium flow-through state that retained no direct and support service set-aside money.
[c]Less than 1 percent.
[d]Includes statewide and regional programs for low-incidence handicaps and direct services for specific handicaps, ADP/MIS implementation, technology for the handicapped, and miscellaneous activities.

states with a low retention spend a smaller proportion of their set-aside on some kinds of service and a correspondingly larger proportion on others. States retaining a smaller proportion of their awards spend a smaller share of funds on research and evaluation, vocational education, preschool programs, and training for parents.

However, these activities consume a relatively small share of funds for all the states. For example, states in the low and medium categories spent 2 percent of their direct and support service set-aside funds on research and evaluation while states in the high category spent 5 percent. "Low" states also spent 1 to 3 percent less on vocational education, preschool programs, and the training of parents than states in the medium and high categories, but none of these activities accounted for more than 2-3 percent of the average state's direct and support service set-aside funds.

In addition, low-retention states spent fewer funds in the "other" category, in which we grouped miscellaneous activities described by the respondents. These activities included statewide and regional programs for low-incidence handicaps, direct services for students with specific handicaps, implementation of data processing and management information systems, and technology for the handicapped, among other activities, and they consumed 17 percent of the funds in low-retention states but nearly 30 percent in the high-retention states.

In contrast to this first pattern of differences, the low-retention states spent a larger proportion of their direct and support service set-aside funds on four other services:

--comprehensive systems of personnel development. The proportion of direct and support service set-aside dollars spent by the average low-retention state on comprehensive systems of personnel development was almost twice the proportion spent by the average high-retention state. The "low" states spent 17 percent, the "medium" states spent 14 percent, and the "high" states spent 9 percent.

--model programs. Low-retention states averaged an expenditure of 13 percent of their direct and support service set-aside dollars on this activity compared to 9 percent for the states in the medium category and 7 percent for states retaining high percentages of their awards.

--assessment centers. The states retaining a low percentage of their awards spent more of their direct and support service dollars on this activity than the other states, the "low" states spending 15 percent,

"medium" states 7 percent, and "high" states 4 percent.

--residential placement. A similar pattern appears here. Low-retention states used a larger proportion of their direct and support service dollars to fund this activity than other states. The low-retention states spent 14 percent, the medium spent 8 percent, and the high spent 6 percent.

In short, the states that retain less than 15 percent of their awards fund fewer types of service than the states that retain the maximum amount, and they tend to concentrate their resources on their comprehensive systems of personnel development, assessment centers, residential placements, and model programs. In contrast, the states that retain the maximum 25 percent fund more service categories, but they spend a smaller share of their set-aside resources on these four services. This analysis does not establish that the percentage that is retained is the only or the major reason for these differences, yet it is consistent with the idea that reducing the set-aside might lead the states to concentrate on selected groups of services.

OTHER FUNDING SOURCES FOR SET-ASIDE ACTIVITIES

If the proportion of Public Law 94-142 funds that the states are allowed to retain were lowered, would other funding sources be available to support the activities funded now with set-aside money? We addressed this question by asking state offices whether activities funded by the set-aside in 1984 were also supported, in part, by other Public Law 94-142 money or other funds. In analyzing the state responses, we found that no activity is dependent exclusively on the set-aside in every state but that in some states set-aside dollars appear to be the only source of support for certain personnel and services. In interpreting our findings, it is important to remember that we asked only about categories funded with the set-aside. We did not study similar activities that are not funded with this source.

Administrative activities

In table 11 (on the next page), we report the number of states that fund various administrative categories exclusively with the set-aside and the number that support these categories with other sources. We counted a state's activity in the "funded only with set-aside" column if the state's fiscal officer could report with certainty that the activity received no support from any other funds under Public Law 94-142 or other federal, state, or local funds. Some states are included in the far right column of the table because the respondents could not rule out these

Table 11

Number of States Using Various Funding Sources to Support Administrative Categories Funded by the Set-Aside, by Category

Category	Funded with						Unable to identify
	Set-aside	Set-aside only	Other 94-142 $	Other federal $	State $	Other $	
Department operations	47	18	6	14	20	0	2
Support personnel	47	24	2	15	13	0	3
Program operations	33	15	5	4	9	0	3
Fiscal management	32	16	1	8	10	0	0
Legal and procedural operations	29	19	2	5	7	0	1
Operating expenses	25	10	3	6	9	0	5
Capital equipment	24	1	0	0	7	0	22
Professional development consultants	23	9	4	3	6	0	4
Other, nonpersonnel	21	11	0	1	2	0	7
Travel	17	7	2	3	8	0	2
Other, personnel	13	7	0	1	5	0	1
Fringe benefits	12	6	0	2	4	0	1
Indirect costs	11	6	1	1	2	0	2
Advisory panel	3	1	0	1	1	0	1

[a]Based on reports from 47 states.

funding sources with certainty. Therefore, it may be that some states that in fact did use only set-aside funds are not in the "exclusive" column. This means that the numbers we report may understate dependence on the set-aside as a funding source.

Even allowing for the possibility of underestimation, when we select activities that both were funded with the set-aside by a majority of the 47 states reporting and received support only from that source in at least half of those states, we find three categories particularly dependent on set-aside funding:

--all the states use the set-aside to fund support personnel involved in administering set-aside funds; 24 states, or about 50 percent, funded set-aside support staff with only this source;

--half of the 32 states that fund fiscal managers with the set-aside supported them with only set-aside funds; and

--19, or about 65 percent, of the 29 states that fund legal and procedural personnel with the set-aside depended exclusively on set-aside dollars for their support.

However, it appears that no administrative category funded by the set-aside is dependent entirely on this source in every state. Most frequently, the states reported that they supplement the set-aside with state funds. As table 11 shows, all administrative categories are supported by state funds in at least some states. For example, 20 states used state funds to supplement their set-aside funds for department operations personnel, 13 used state funds to supplement funds for support personnel, and 9 used state funds to supplement funds for personnel in program operations. Further, all categories but capital equipment received support from other federal dollars in at least some states: 14 states used other federal dollars to supplement funding for department operations and 15 states used them to provide supplementary funds for support personnel.

Direct and support services

In the states' reports, four direct and support services stand out because at least one third of the states fund them with the set-aside and because, in at least half of these states, they depend solely on set-aside dollars:[2]

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[2]Somewhat different criteria were used here than in the administrative analysis because only three direct and support services are funded with the set-aside in the majority of the states. Therefore, we focused our analysis on services funded by at least one third of the 41 reporting states rather than by the majority, the initial criterion we used in the administrative analysis.

Table 12

Number of States Using Various Funding Sources to Support Direct and Support Services Funded by the Set-Aside, by Category[a]

ategory	Set-aside	Funded with Only with set-aside	Other 94-142 $	Other federal $	State $	Other $	Unable identi
omprehensive system of personnel development	32	7	11	7	14	4	4
odel programs	24	15	2	2	6	3	1
aterials development	20	10	3	1	4	3	1
dvisory panel	19	15	1	0	0	0	3
ocational programs	19	7	2	6	5	1	4
elated services	18	10	1	1	5	0	3
esearch and evaluation	17	6	3	0	3	3	3
esidential placement evaluation	15	5	2	1	8	2	2
ssessment centers	15	5	1	2	8	1	2
nteragency coordination	15	6	0	2	8	1	0
hild find	12	5	0	0	5	1	2
arent training	12	8	2	0	2	0	0
ecruitment and training of hearing officers	11	6	0	0	2	0	3
reschool programs	10	3	3	4	3	1	0
ummer programs	9	3	1	1	6	0	0
rocedural safeguards	8	2	2	0	2	1	1
nfant programs	6	3	1	1	2	0	0
ransportation	2	0	0	0	1	0	1
ther	26	10	1	4	9	0	6

Based on reports from 41 states; excludes 1 state that retained no direct and support service set-aside funds; 6 other states did not provide information.

--15, or 62 percent, of 24 states that funded model programs with the set-aside did so only with the set-aside;

--15, or 79 percent, of 19 states that funded advisory panels with the set-aside used only the set-aside for that purpose;

--18 states used the set-aside for related services and 10 of these, or 56 percent, supported these services only with set-aside funds; and

--10, or 50 percent, of 20 states that funded the development of materials with the set-aside did so only with that source.

We show these data in table 12.

As with the administrative categories, however, it appears that no activity is dependent only on the set-aside in every state. Our respondents reported that nearly all activities receive state funds, and nearly all receive other federal funds in some states. But for most activities, the number of states using federal funds to supplement the set-aside is smaller than the number using state funds. Thus, state funds seem to be the primary supplementary funding source for the direct and support services that are supported by the set-aside.

In summary, our analysis of funding sources other than the set-aside for administrative categories and direct and support services shows that no activity appears to be wholly dependent on set-aside dollars in every state. However, in some states set-aside dollars seem to be the exclusive source of support for certain personnel and service categories. In these states, these categories would have to be supported by other funds if set-aside dollars were not available.

OPINIONS ABOUT SHIFTING THE FUNDS

We interviewed state directors of special education, local education agency personnel, federal officials, and representatives of special interest groups for their opinions about the effect of a shift in set-aside funds. Beginning with the state directors, we asked what would happen if set-aside funds were not available at all, and we asked what would happen if the proportion of funds allocated for administration or direct and support services were changed. We also asked for their views on the advantages and disadvantages of targeting funds separately for administration and direct and support services.

The effect of a loss of all set-aside funds

Not surprisingly, the state directors told us that if set-aside funds were not available, there would be a large drop

in the administrative activities that are now funded with the set-aside. Eighteen, or 38 percent, of the 48 state directors said that administrative activities would not continue at all, and 24, or 50 percent, said that only some activities could continue to find support. They explained their answers most frequently by saying that there would be fewer staff to perform administrative activities. Others said that they would continue to fulfill the federal and state mandates, and some said that they would do less monitoring.

Twenty-seven, or 56 percent, of the state directors said that in the absence of set-aside funds, no direct and support services now funded by the set-aside would be continued; 19, or 40 percent, said that only some would be continued. Six of these state directors also noted that without set-aside funds for direct and support services, local education agencies would be more on their own, presumably receiving less guidance, direction, and support from the state education agencies.

As we show in table 13, when we asked the state directors where money might come from for activities currently funded by the set-aside, the source they mentioned the most frequently was a larger budget from general state revenues. Beyond this, they said that funding for administrative activities would have to

Table 13

Alternative Funding Sources for Administrative and Direct and Support Service Activities Supported by the Set-Aside, Reported by State Directors of Special Education[a]

Administrative[b]	States n	States %	Direct and support[c]	States n	States %
Increased budget from general revenues	16	67	Increased budget from general revenues	7	44
Reallocation in State educ. dept.	6	25	Reallocation in State educ. dept.	2	12
State special educ. dept.	4	17	State special educ. dept.	2	12
Other federal programs	3	12	Other federal programs	3	19
Local educ. agency subscription services	2	8	Local educ. agency subscription services	3	19
Other	1	4	Other	4	25

[a]States could name more than one alternative funding source for these activities. Percents are rounded to the nearest percent.
[b]Based on responses from 24 of the 30 directors stating that at least some administrative activities would continue in the absence of the set-aside.
[c]Based on responses from 16 of the 21 directors stating that at least some direct and support services would continue in the absence of the set-aside.

come from money already in an education funding stream--that is, from reallocations within the state department of education or department of special education. But reallocation was mentioned least frequently as a potential resource for direct and support services.

These responses suggest that, if state directors were faced with a loss of set-aside money, some might seek to meet federal and state mandates and might do some monitoring by securing funds for administration. However, most state directors probably would be forced to curtail activities now being funded with the direct and support services portion of the set-aside.

The effect of shifting funds from the administrative or the direct and support service portions of the set-aside to local education agencies

Table 14 shows that nearly half of the state directors believed that an increase in the administrative

Table 14

How Changes in the Administrative Portion of the Set-Aside Would Affect Activities by State Size, Reported by State Directors of Special Education[a]

Effect	Directors by state size: Small n	Small %	Large n	Large %	All directors n	All directors %
Increase in funds[b]						
Would have no effect	3	27	20	54	23	48
Could hire more staff	5	46	10	27	15	31
Would have better programs and staff	3	27	6	16	9	19
Could provide more technical assistance	3	27	3	8	6	12
Would increase state leadership	3	27	4	11	7	15
Decrease in funds[c]						
Would mean global service cuts	7	64	16	46	23	50
Would mean staff cuts	4	36	19	54	23	50
Would not be in compliance	3	27	1	3	4	9

[a]Multiple responses were allowed; directors' responses were coded into categories; table includes only categories with at least 25 percent of responses in small or large states. Percents are rounded to the nearest percent.
[b]Based on responses of 48 state directors.
[c]Based on responses of 46 state directors, 11 in small and 35 in large states.

set-aside would have no effect on their programs. However, this view was expressed more frequently by directors in large than in small states. Moreover, nearly half of the directors in small states, but only about a quarter of the others, said that they could hire more staff if the administrative portion increased.

There were also some differences between the responses of directors in small and large states on the potential effect of a decrease in the administrative set-aside. Nearly two thirds of the 11 small-state directors but less than half of the others answering our question said that cutting administrative funds would result in a general decrease in services. The directors in four states, three of them small states, said that they would not be able to comply with the federal statute and regulations if the administrative portion of the set-aside decreased.

State size also seems to affect views about shifting the portion of set-aside funds available for direct and support services. As table 15 indicates, 20 directors of large states,

Table 15

How Changes in the Direct and Support Services Portion of the Set-Aside Would Affect Activities by State Size, Reported by State Directors of Special Education[a]

Effect	Directors by state size: Small n	Small %	Large n	Large %	All directors n	All directors %
Increase in funds[b]						
Would have no effect	2	20	20	56	22	48
Would mean more state initiatives	4	40	5	14	9	20
Would mean more research and development	3	30	4	11	7	15
Would be better able to meet state needs	3	30	4	11	7	15
Decrease in funds[c]						
Would have no effect	1	10	10	.9	11	24
Would mean fewer state initiatives	3	30	13	37	16	36
Would mean service cuts	4	40	10	29	14	31

[a]Directors' responses were coded into categories; includes only categories with at least 25 percent of response in small or large states. Percents rounded to the nearest percent.
[b]Based on responses of 46 state directors, 10 in small and 36 in large states.
[c]Based on responses of 45 state directors, 10 in small and 35 in large states.

or more than half of those answering our question, said that an increase in the direct and support service percentage would have no effect on their programs. Only 20 percent of the directors of small states expressed this view. We believe this shows that many large states would not retain and use at the state level additional discretionary money, even if the law permitted it.

However, the state directors mentioned most frequently that a decrease in the proportion of direct and support money would permit fewer state initiatives. Four directors in small states and 10 directors in other states also said that a decrease would mean a general reduction in services. But a quarter of the state directors, all but one of them in large states, said that a decrease would not affect their programs.

Targeting funds for administrative and direct and support services

The majority of the state directors of special education are satisfied with their states' current allocation of set-aside funds. Thirty-one, or 65 percent, of the 48 respondents said they were satisfied with their states' current split between administration, direct and support services, and flow-through resources.

The dissatisfied group includes 9 of the 11 directors in small states; 8 of the directors in small states were especially dissatisfied with the $300,000 small-state cap on administrative expenditures. Eight directors in large states (about one fifth) also have problems with their states' present allocation, some mentioning that 5 percent is not enough for administrative purposes and others saying that they would like to be able to combine the administrative and direct and support service allocations or that 25 percent as a whole is not a large enough set-aside.

Despite some dissatisfaction with the caps on administrative expenditures, the state directors saw several advantages to having funds targeted distinctly for administration. Twenty-eight, or more than 60 percent, of the 45 answering our question said that administrative funds provide the states with sufficient money to fulfill their responsibilities under Public Law 94-142. More than half, or 51 percent, indicated that this designation prevents the arbitrary use of these funds. Other advantages they cited were that these funds give federal recognition to the importance of the role of the state education agencies in the education of the handicapped (27 percent) and that the administrative funds give the agencies the flexibility they need (22 percent).

Nearly two thirds, or 65 percent, of the 43 state directors answering the question about the disadvantage of targeting funds for administration indicated that there are none. However, some directors indicated that they had had problems with the proportional splitting of 5 percent to administration and

20 percent to direct and support services. Further, as we noted above, 8 small-state directors, or 73 percent, were dissatisfied with the $300,000 cap on administrative expenditures.

When asked about the advantages of maintaining distinct funds for direct and support services, the state directors pointed to a number of areas. Of the 43 responding, 32, or nearly three fourths, said that having these distinct funds allows states to support their own priorities. About half, or 22 of the 43 state directors, said that these funds allow the states to determine their own uses for the set-aside. A third indicated that having a distinct portion of funds for direct and support services allows a state director to build the state's program-development capacity and to assume a leadership role. One fifth said that the availability of funds targeted to direct and support services provides a contingency fund for emergency situations. The majority, 31 of the 41 answering this question, indicated that there are no disadvantages to the present targeting of direct and support funds.

The opinions of local education agency personnel

During the on-site collection of documentary data in the three states we visited, we interviewed by telephone three directors of special education in three local education agencies in each state, for a total of nine respondents. We selected the agencies they represented to give us a respondent from a suburban, an urban, and a rural agency in each state. We were interested in seeing the actual dollar differences that shifts in the set-aside would make, and we wanted to know how the local agencies might spend additional flow-through funds.

To be able to speak in specific terms to these directors, we hypothesized an increase in flow-through that would equal 90 percent of a state's current Public Law 94-142 grant, the state retaining 10 percent. This would represent a considerable increase for these local agencies, since they are in states with set-asides of 23 percent (Arkansas), 16 percent (Oklahoma), and 15 percent (Missouri). For the nine agencies in total, an increase to a 90-percent flow-through would create an additional $324,379. The range would be an additional flow-through of $2,088 to a rural agency and $187,904 to an urban one.[3]

We asked all the directors what they would do with additional flow-through dollars. Four of the nine respondents

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[3]We used these formulas: (a) (90 percent of state grant/state child count) = "H" hypothetical flow-through dollars per child. (b) "H" x local child count = new flow-through to local education agency. (c) New flow-through - current flow-through = specific increase to local education agency.

mentioned that they would spend their additional money on salaries or training. In descending order of frequency, the other uses were for buying audiovisual equipment, conducting diagnostic and assessment examinations of children, and meeting the emergency needs of special students in the district. One director said that the additional funds would not be enough to pay new salaries or start a new program and that probably they would merely cover the cost of inflation. It must be noted that the responses of so small a group cannot be considered to represent local education agencies nationwide or even the agencies in the three states we visited.

The opinions of federal officials and interest groups

As we noted in chapter 3, we interviewed 13 individuals who are highly interested in the set-aside program. Five were officials who are or have been policymaking officials in OSEP, and 8 were officials of national groups of educators. Each of the 13 respondents was asked for comments about the effects of a hypothetical 15-percent increase or decrease in the amount of the allowable state set-aside.

Reactions were generally negative. For example, some OSEP officials saw a decrease as hurting quality, depreciating the state role, or hampering compliance. Education-group representatives also noted that a state might lose staff and fall out of compliance if there were a decrease. However, one of these respondents thought that a decrease in the set-aside would be a good thing, saying that it would give local education agencies more money to operate programs. One did not know what effect a decrease would have.

Both the OSEP and the education-group respondents reacted negatively to the hypothetical increase in the set-aside. They cited, among other reasons, the possible loss of personnel funds in the local agencies and the political infeasibility of increasing a state's set-aside at the expense of the flow-through to the local agencies.

Thus, although the reasoning varied from respondent to respondent, overall it appears that federal officials and national representatives of education groups would respond generally negatively to either increasing or decreasing the state set-aside. The consensus seems to favor the status quo.

SUMMARY

We examined the likely effect of a federally mandated shift between the proportion of Public Law 94-142 grants that the states may retain and the proportion that they must let flow through directly to their local education agencies. Examining historical trends to determine whether the states have shifted these proportions voluntarily, we found that, although the changes over

the years have been small, the average percentage that is retained today (about 20 percent) represents a five-point decrease from the allowable maximum. About $53 million in additional funds flowed through to local education agencies in 1984.

Analyzing the differences in the activities of the states that retain different proportions of their grants, we found that 12 states retained less than 15 percent of their grants, 17 retained between 15 and 24 percent of their grants, and 19 retained 25 percent of their grants. While these groups are distinct, the patterns for administrative expenditures are unclear. For example, on the average, the states that retained a low percentage of their awards funded the same number of administrative staff (about 27) as the states that retained a high percentage, but both funded 3 more staff than the average state in the middle.

In contrast, the patterns for direct and support services are clearer. Compared to other states, the states that retained a low percentage spent a smaller proportion of their direct and support service set-aside funds on research and evaluation, vocational education, preschool programs, the training of parents, and other miscellaneous activities and spent a larger proportion on comprehensive systems of personnel development, model programs, assessment centers, and residential placement. This suggests that reducing the set-aside might lead the states to concentrate on a few activities and reduce their support for others.

When we asked the states to identify other sources of funds that supplement the set-aside in support of various activities, more than one half of the states reported using only the set-aside to fund administrative support staff involved with the set-aside program. Fiscal managers and legal and procedural personnel also are particularly dependent on set-aside funding in many states. However, no administrative category funded by the set-aside is dependent exclusively on set-aside money in every state. Most frequently, the states supplement the set-aside's administrative functions with state funds.

Four direct and support services stand out because they are funded by at least 18 states and appear to depend solely on the set-aside in at least half of these states: model programs, advisory panels, materials development, and support services related to the education of the handicapped. However, as with the administrative categories, no activity is dependent on only the set-aside in every state. Nearly all direct and support services receive state funds, and nearly all receive other federal funds in some states.

The state directors of special education told us that, in general, they believe that the present division of Public Law 94-142 funds should not be changed. Nearly two thirds are satisfied with their states' current allocations to

administrative, direct and support service, and flow-through funds. The majority also see distinct advantages in maintaining a separate targeting of funds for administrative purposes and direct and support services. However, 8 of the 11 directors of small states expressed dissatisfaction with the $300,000 cap on administrative set-aside expenditures.

In total, our analysis of the likely effect of a mandated shift in the set-aside proportion shows that, while the states have already shifted funds on their own, a mandated change would not be favored by state directors of special education. Moreover, the analysis of differences in activities in states that retain different proportions of their awards suggests that a mandated shift could be accompanied by a change in the types of direct and support activities suported with these funds. Our information is not sufficient to comment on the availability of nonfederal funds to support activities that might be dropped if a shift occurred.

CHAPTER 5

SUMMARY AND CONCLUSIONS

SUMMARY

Under the Education for All Handicapped Children Act of 1975, commonly known as Public Law 94-142, each state is allowed to retain, or set aside, 25 percent of its grant for its own use under broad federal guidelines. Each state must flow through 75 percent of the grant directly to the state's local education agencies. In the federal fiscal year 1984, Public Law 94-142 was funded with slightly more than $1 billion. Of this, the states set aside 25 percent, or more than $250 million, for the use of the state education agencies. In this report, we have identified the activities that the states funded with the set-aside, the functions they serve, and the probable effect of shifting the proportions of the grant that can be retained for administrative purposes and direct and support services.

The states fund a variety of types of service at a variety of levels. Despite their differences, the states' use of Public Law 94-142 funds is consistent with the seven broad purposes specified in the legislation.

None of the administrative activities or direct and support services that are funded with the set-aside are dependent on only that source in every state. However, model programs, advisory panels, support services related to the education of the handicapped, materials development, and certain administrative personnel, among other things, seem especially dependent on the set-aside money in a large proportion of the states that use the set-aside for these purposes.

When analyzing the probable effect of a legislated change in the set-aside proportion, we found that, although the states have changed their set-aside percentages only slightly year by year since 1978, in 1984 the average state retained only 20 percent of its grant. This is a five-point voluntary decrease from the allowable 25-percent maximum. Thus, the states have in effect shifted funds from the set-aside to their local education agencies on their own. We found also that the states that retained less than 15 percent of their awards funded fewer types of service than other states and concentrated their resources on their comprehensive systems of personnel development, assessment centers, residential placement programs, and model programs. This finding is consistent with the idea that a legislated change in the set-aside would be accompanied by a change in the patterns of services supported with set-aside funds.

In general, the state directors of special education believe that the present division of Public Law 94-142 funds

should not be changed. Sixty-five percent are satisfied with their states' current division of funds between administration, direct and support services, and flow-through to local education agencies. Their consensus is that a decrease in the set-aside would have a negative effect on state programs. Directors of special education in school districts, federal officials, and groups with special interests in the education of the handicapped also favor maintaining the status quo.

CONCLUSIONS

In general, the state directors of special education express the belief that the set-aside is working without major problems. Most of them appear to believe that their states have allocated the set-aside in a manner that meets the federal mandates and responds to state needs. We concur that the states' use of the set-aside is consistent with the federal legislation and meets their needs. However, our findings suggest that the status quo might be modified in several ways.

1. Most of the states are not using their full set-aside allotment, particularly the portion that is used to fund direct and support services. On the average, the states retain 20 percent of the set-aside instead of the allowable 25 percent. A legislated 5-percent decrease in the set-aside would formalize what 29 states have already accepted voluntarily. However, a 5-percent decrease might have a negative effect on the 19 states that retain the full 25 percent. We conclude that the advantages of allowing the states to continue to make this choice voluntarily probably outweigh the advantages of mandating a reduction.

2. The states vary greatly in the types of activities they fund with the set-aside, particularly those that they support with the direct and support services portion. Overall, the states are using the flexibility that the legislation and the regulations allow. It would therefore appear that the states would need more specific guidance if certain activities such as research and evaluation, "child-find" programs, or programs for infants were to be supported by the set-aside or, conversely, if there are activities that the states are funding that should not be supported by the set-aside.

3. Although 8 of the 11 directors of special education in "small" states (as defined by their "child counts") are dissatisfied with the $300,000 cap on administrative expenditures, other evidence from our review is not sufficient for commenting on the merits of raising the cap. However, because the small states are generally dissatisfied with this provision, we believe that the argument for allowing the small states the flexibility of allocating a larger percentage of funds to administrative purposes should be considered.

MATTER FOR CONSIDERATION BY THE SUBCOMMITTEE

Better information on the set-aside is needed. When federal money is appropriated, it is important to know how the money is spent and whether it continues to be needed. Yet no national data have been available for evaluating the set-aside program. The current regulations do not require the states to report the proportion they retain from their grants and the proportions they use for administration and direct and support services each year. If such minimal information were available, it would at least be possible to track trends in state and local allocations and to determine, among other things, whether the states are continuing to make voluntary reductions in the set-aside. Our experience in collecting information for this review suggests that information about set-aside proportions would not be difficult for the states to report to the Office of Special Education Programs as part of their annual performance reports on Public Law 94-142. The information would be similar in kind to other data that are included in the Department of Education's annual report to the Congress on the implementation of Public Law 94-142, and the department might want to include it in the document. Overall, we do not believe that collecting and reporting this basic information would add greatly to the states' or the department's data collection and reporting burden.

In addition, data on expenditures for specific types of activities that are funded by the set-aside and information on how well the activities are carried out, how effectively they achieve their stated purposes, and how well state administrative activities and support and direct services meet the needs of handicapped students would provide far more information than we were able to find, than is required, or than is available to policymakers. However, in contrast to the basic information suggested above, the need for this kind of detailed information would have to be weighed carefully against the cost of producing it, given that it would impose a significant reporting burden on the states.

AGENCY COMMENTS

Officials of the U.S. Department of Education reviewed a draft of this report; we have incorporated their oral comments as appropriate. Overall, they found the report to be accurate and agreed with our concluding observations. In the opinion of these officials, however, not even minimal additional reporting requirements for the set-aside could likely be imposed without statutory or regulatory changes.

APPENDIX I

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United States Senate
COMMITTEE ON LABOR AND
HUMAN RESOURCES
WASHINGTON, D.C. 20510

October 20, 1983

Mr. Charles Bowsher
Comptroller General
U.S. General Accounting Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Bowsher:
As Chairman of the Senate Subcommittee on the Handicapped I am most interested in determining the effects of the 25% set-aside to States in PL 94-142 (Education for All Handicapped Children Act) on the functions of activities of State Offices of Special Education. We are requesting the assistance of the General Accounting Office in examining this question in order to provide testimony for hearings on the Act in spring 1984 as part of our general concern for appropriate federal, state and local roles in education. We believe this evaluative question could be addressed rapidly through the case study methodology described to us by staff from the Institute for Program Evaluation.

More specifically, PL 94-142 requires States to take responsibilities of an educational, monitoring, and enforcement nature that for many States differs greatly from their prior roles in relation to both the Federal government and local school districs. A total of 25% of the funds awarded to the State under PL 94-142 are set aside to assist States in preparing to carry out these responsibilities and to a certain extent in actually carrying them out.

The 25% set-aside in PL 94-142 provides more than $250,000,000 annually to States. This is the single largest source of funds going from the Federal government to State offices of special education. States were given considerable flexibility in their use. While some descriptive information is available on how States have used these funds since 1978, the Subcommittee needs more recent and more evaluative information with regard to the effects of the funds on state office functioning at present.

We would like information on three questions:

--What functions are the 25% set-aside funds fulfilling in the services of PL 94-142 objectives? What activities support these functions?

APPENDIX I

Mr. Charles Bowsher

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--What is the relation between these monies and other Federal/State support for State office of special education functions? Have these monies been used to supplant other state or federal funds?

--What would be the probable impact on how State offices of special education would function if the proportion of funds going to SEAs relative to LEAs were shifted?

It would be useful, in selected states, to examine what functions the 25% set-aside is serving in carrying out the mandates of PL 94-142, as seen, for example, in allocation decisions since 1978 in state plans, evaluation reports, annual reports and from the perspectives of intended beneficiaries. In these selected states it also would be helpful to examine funds available to State Departments of Special Education from PL 94-142 and from other Federal and State resources to carry out responsibilities required by PL 94-142, and other Federal and State laws. How have these changed since 1978? What is their current status?

The Subcommittee is concerned with obtaining generalizable information in a relatively short time. We therefore request a briefing early in the study of the basis on which the States to be examined will be selected, after which we could decide to continue, adjust or reexamine the value of the effort.

It would be helpful to the Subcommittee to have the findings of this review presented in testimony at hearings this spring and more fully in a report to follow thereafter. If you have any questions, please call Dr. Nina Bar-Droma at 224-6265.

Sincerely,

Lowell Weicker, Jr.
United States Senator

LW/lw

APPENDIX II

NINE LOCAL EDUCATION AGENCIES

CONTACTED BY GAO

Arkansas

Alma-Crawford County
Alma School District
Alma, Arkansas 72921

Hampton-Calhoun County
Hampton School District
Hampton, Arkansas 71744

Pulaski County
Pulaski County Special School District
1500 Dixon Rd.
Little Rock, Arkansas 72206

Missouri

Houston-Texas County
Exceptional Child Education Cooperative
Houston School District
423 West Pine
Houston, Missouri 65483

Richmond-Ray County
Richmond School District
426 West Main
Richmond, Missouri 64085

St. Louis-St. Louis County
St. Louis City School District
911 Locust Street
St. Louis, Missouri 63101

Oklahoma

Owasso-Tulsa County
Owasso Independent School District
Owasso, Oklahoma 74055

Pawhuska-Osage County
Pawhuska Independent School District
Pawhuska, Oklahoma 74056

Waurika-Jefferson County
Waurika Independent School District
Waurika, Oklahoma 73573

THE SET-ASIDE AS A PERCENTAGE OF STATE EDUCATION BUDGETS FOR 1984 STATE FISCAL YEARS

State	Set-aside amount (thousand $)	Set-aside as percent of budget[a]	
		Elementary and secondary educ.	Special educ.
Alabama	4,834	0.3	4.2
Alaska	578	0.1	1.0
Arizona	2,438	0.2	3.5
Arkansas	2,624	0.4	5.4
California	15,940	0.2	1.9
Colorado	1,498	0.2	3.5
Connecticut	3,075	0.2	1.3
Delaware	691	0.3	2.3
Florida	9,141	0.2	2.3
Georgia	5,435	0.3	[b]
Idaho	965	[b]	[b]
Illinois	13,650	0.6	3.7
Indiana	2,163	0.2	3.0
Iowa	3,428	0.2	1.5
Kansas	[b]	[b]	[b]
Kentucky	2,437	0.2	2.1
Louisiana	4,988	0.4	3.0
Maine	1,538	0.4	3.8
Maryland	5,456	0.3	2.0
Massachusetts	2,477	0.2	1.0
Michigan	4,964	0.3	1.0
Minnesota	1,984	0.2	1.6
Mississippi	1,321	[b]	[b]
Missouri	3,944	0.4	4.1
Montana	720	0.2	2.7
Nebraska	1,786	0.2	3.1
Nevada	609	0.4	2.8
New Hampshire	748	0.2	7.5
New Jersey	9,726	0.4	4.7
New York	14,491	0.3	1.4
North Carolina	2,278	0.1	1.7
North Dakota	383	0.2	3.8
Ohio	10,750	0.4	3.7
Oklahoma	2,577	0.4	10.7
Oregon	2,543	0.4	5.8

[a]Rounded to nearest 0.1 percent.
[b]Information not reported.

APPENDIX III

State	Set-aside amount (thousand $)	Set-aside as percent of budget[a] Elementary and Secondary educ.	Special educ.
Pennsylvania	11,020	0.6	2.9
Rhode Island	927	0.4	4.6
South Carolina	1,573	0.2	1.8
South Dakota	699	0.7	5.8
Tennessee	2,370	0.2	2.1
Texas	16,616	0.4	3.2
Utah	2,208	0.3	5.0
Vermont	432	0.4	2.1
Virginia	2,222	0.2	2.7
Washington	3,763	0.2	2.5
West Virginia	1,921	0.2	[b]
Wisconsin	4,328	0.2	0.5
Wyoming	446	[b]	[b]
Highest	16,616	0.7	10.7
Lowest	383	0.1	0.5
Median	2,437	0.3	2.8
No. of states reporting	47	45	42

[a]Rounded to nearest 0.1 percent.
[b]Information not reported.

THE STATES' DISTRIBUTION OF THE SET-ASIDE FOR 1984 STATE FISCAL YEARS

State	Flow-through	% retained		
		Administration	Direct and support services	Total[a]
Alabama	76	5	19	100
Alaska[b]	75	13	12	100
Arizona	81	5	15	101
Arkansas	77	5	18	100
California	84	4	13	101
Colorado	91	5	5	101
Connecticut	80	5	15	100
Delaware[b]	75	11	14	100
Florida	75	5	20	100
Georgia	79	3	17	99
Idaho[b]	75	7	18	100
Illinois	75	5	20	100
Indiana	90	3	7	100
Iowa	75	5	20	100
Kansas	77	5	18	100
Kentucky	86	4	10	100
Louisiana	75	5	20	100
Maine	78	5	17	100
Maryland	75	5	20	100
Massachusetts	93	5	3	101
Michigan	86	5	9	100
Minnesota	90	5	5	100
Mississippi	89	5	6	100
Missouri	86	5	10	101
Montana[b]	78	9	13	100
Nebraska	76	5	19	100
Nevada[b]	81	10	10	101
New Hampshire[b]	75	10	15	100
New Jersey	75	5	20	100
New York	75	5	20	100

[a]Percentages do not all round to 100.
[b]Small state.

State	Flow-through	% retained: Administration	% retained: Direct and support services	Total[a]
North Carolina	92	5	3	100
North Dakota[b]	85	15	0	100
Ohio	77	3	20	100
Oklahoma	84	5	11	100
Oregon	75	5	20	100
Pennsylvania	75	5	20	100
Rhode Island[b]	80	7	13	100
South Carolina	90	5	6	101
South Dakota[b]	75	10	15	100
Tennessee	91	4	5	100
Texas	75	5	20	100
Utah	75	5	19	99
Vermont[b]	75	17	8	100
Virginia	91	5	4	100
Washington	75	5	20	100
West Virginia	80	5	15	100
Wisconsin	75	5	20	100
Wyoming[b]	80	14	6	100
Highest	93	17	20	
Average[c]	80.3	6.2	13.6	
Lowest	75	3	0	
No. of states reporting	48	48	48	

[a]Percentages do not all round to 100.
[b]Small state.
[c]Rounded to nearest 0.1 percent.

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